Discussion Paper Response

ACCC Monitoring of electricity supply in the National Energy Market

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Beovista

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Introduction

This document contains responses to the Discussion Paper titled "ACCC monitoring of electricity supply in the National Electricity Market" dated 21 November 2018.

Questions from the Discussion Paper included for reference and are shown in ***bold italics*** in the document below.

Sec 3: Framework for monitoring and types of analysis

Sec 3.1: Analytical Framework

1) The appropriate analytical framework(s) for the ACCC's monitoring activities, including:
(a) What frameworks are most relevant to the electricity market
(b) How the ACCC should incorporate these overarching frameworks into its monitoring activities

It is our view that the Retail Pricing framework should focus on both:

- Residential Customers
- Business (SME and C&I) Customers

It is noted that whilst Small Medium Enterprise (SME) and Commercial and Industrial (C&I) are both considered "business" customers, the range of energy usages across these sectors combined is very large. Hence, if possible, it is recommended to report at this sub level of SME and also C&I.

Business customers usually have a more complex electricity price tariff structure than residential customers. For businesses without dedicated procurement departments looking at electricity contracts, they may not always be able to take advantage of the best tariff structure for their usage (for example, renegotiating peak demand charges).

Additionally, within the scope of Business customers, we recommend analysis at further sub-classification levels of:

- Consumption (MWh) charges; and
- Demand (kVA or KW) charges

Currently, due to the existing variations of categorisation by Retailer and Local Network Service Provider (LNSP), effective comparison at this level is not easily available. Specifically, the tariff items covering "Demand Charges" vary greatly and often have a large impact on the total electricity bill to a customer.

With regards to overarching frameworks used in monitoring activities, the use of these additional sub-classifications is the recommended change.

Sec 3.2: Measures the ACCC will use

2) Current overlapping and inconsistent methodologies to market monitoring, and suggestions for preferred approaches.

We agree with REPI recommendation to aim at a consistent NEM-wide approach, supported by additional sources as required (per COAG Energy Council, Consultation on Proposed Metrics for Strategic Energy Plan).

Having duplication of reporting and analysis is seen as inefficient and administratively costly to the market participants.

Sec 3.2.1: Retail electricity prices

3) Which retail price data collected and reported on in REPI was insightful and should be produced on an ongoing basis as part of the monitoring function.

All of the retail price data outlined in REPI is considered valuable information. It should be replicated ongoing to allow for the continued trending analysis of pricing make up across time.
We agree with and re-emphasize the need to improve the Business sub-segment reporting for clarity on pricing outcomes.

Our recommendation is to define SME classifications by "energy use" (eg low, medium, high users; 5 days or 7 days a week operation) rather than ABS categorisation for example. This will provide the best comparative data set for pricing changes and policy change impact.

Time Of Use (ToU) flexible tariff take up is also recommended to be tracked, with the take up again shown by Residential and Business customer type. ToU is not typically available to customers without smart meters installed. As such, interesting metrics to track include:

- rollout of smart meters across jurisdictions;
- penetration of ToU tariffs across customers with smart meters.
- volume of consumption (eg GWH) charged under ToU tariffs. (To view if the larger energy users are under ToU to encourage smarter energy use).

The experience of the Victorian rollout of smart meters (noted in REPI) is acknowledged; with customer engagement and education being an important part of enabling this penetration to increase.

Without Time of Use (and/or demand charges) there is little, if any, financial incentive for customers to be energy conscious, or shift their demand to other times of the day. This lack of demand shifting keeps the pressure on the network when operating near capacity, rather than helping reduce it.

4) Is there retail price data not reported on in REPI that would be useful to understanding how well the retail market is functioning?

A recommended build would be to obtain "actual" bill data (anonymised) rather than simply the 'average standing / market offer' pricing.

A representative, scalable, set of sample residential and business customers' electricity bills could be used. These can be grouped by consumption and region to enable electricity bill values to be compared across retailers.

It is envisaged this sample data set would be used each reporting period, to see how actual electricity prices would change across time as tariffs change. The sample set should include a cross section of residential, SME and C&I customers. Additional criteria may also be used, for example length of operation at supply address (for discount breaks).

This is similar to a "standard basket" approach in the tracking of Grocery prices across time between different supermarkets. It also aligns with the "reference bill" as discussed in REPI.

5) Are there different approaches to the analysis of REPI or other data that would be more useful than the analysis reported in REPI?

As indicated above, anonymised, actual customer bill consumption and demand data as an additional source.

6) The best way to measure the relationship between wholesale and retail prices over time, including:
(a) How wholesale prices affect retail prices and the ways in which this can be measured
(b) What types of monitoring or analysis would best reveal the relationship between wholesale and retail prices

Trend analysis across time is obviously important.

The time it takes for price changes to be passed onto consumers is a good measure to track, especially when price reductions are happening in the wholesale market. It is noted however, that hedging contracts can mask the timing impact of pricing being passed to consumers. Additionally, price changes may not be passed on to consumers until their next contract review date, masking further the immediate impact of wholesale market changes.

Contract length could be used as a proxy for customers' sentiment with confidence of a fair deal being available in the market.

7) What types of data are necessary to undertake this analysis

The tariff structure of the electricity bills and charge rates would be sourced from Retailers. Wholesale pricing data is already available in the market.

Sec 3.2.2 to 3.2.4: Wholesale market prices; Generation and retail profits; Contract market liquidity

Beovista does not have further comments in these sections. These are questions 8 to 11 inclusive.

8) Analysis of the wholesale market that the ACCC could produce to complement the existing work of other agencies monitoring wholesale prices.

9) Analysis of retailer and generator profitability. In the case of wholesale profitability, what analysis could the ACCC produce to complement existing work monitoring generators or retailers?

10) What methodology should the ACCC use in its approach to monitoring hedge contract markets? Are there specific metrics or pieces of information that are not currently reported that would be informative for market participants and policy makers? What types of data or information would be most valuable, and who should they be sought from?

11) The value of the types of contract market measurements reported on in REPI, and which, if any, or these measurements should be prioritised to be monitored on an ongoing basis.

Sec 3.3: Expectations of market outcomes and market participant behaviour

Beovista does not have further comments in this section. These are questions 12 to 13 inclusive.

12) How an efficient electricity market can be expected to operate.

13) What specific measurements or thresholds of market outcomes or participant behaviour should be used in the ACCC's electricity market monitoring?

Sec 4: Monitoring the impact of policy developments

14) What policy issues are likely to impact on the functioning of the electricity market and should therefore be a focus of monitoring by the ACCC?

Energy Efficiency, delivered by installing Energy Conservation Measures (ECM), is an area that we recommend be included more fully in the ongoing monitoring and reporting of its impact on electricity supply and pricing.

Any installed ECM aims to reduce overall consumption and potentially also demand. This enables less generation capacity to be required in the NEM. Additionally, those measures that also reduce peak demand, can have a significant contribution to reducing overall network capacity and hence demand charges to customers.

Energy savings from ECMs can be determined using international guidelines (the IPMVP or International Performance Measurement and Verification Protocol). The range, effectiveness and penetration of ECMs is broad. Beovista offer to work with the ACCC in identifying key ECMs with which to perform some analysis on their impact. Ultimately, an overlay of electricity consumption reduction and electricity bill cost reduction should validate any policy impact change insights reached with regards lowering electricity costs.

As noted in the discussion paper, government support is available to create Generation Capacity in the network. Further support around Energy Conservation Measures to enable their installation is seen as important.

15) What methodological approaches could be undertaken by the ACCC in monitoring the impact of particular policy developments?

The use of the "Reference Bill" is seen as a good approach for reviewing pricing offers in the market. This enables variance of Pricing Offers versus the suggested 'Reference Bill", grouped by Retailer by Jurisdiction. This can provide a measure of how near to the Reference Bill values was achieved.

Sec 5: Process and timing for the collection of information

It is understood that this section is more for participants in the generation, wholesale and retail operators. As such, Beovista does not have further comments in these sections. These are questions 16 to 21 inclusive.

16) The proposed reporting schedule and how it may affect your business.

17) Other similar reporting requirements your business is subject to, and the degree to which the ACCC's monitoring activities could align with those requirements (or information could be shared between agencies to minimise duplicative requests).

18) Whether particular measurements are likely to be more suitable for the March or September report, given the time of year those measurements are typically produced by your business, and the time required to finalise and collate that information.

19) Factors that may impact the proposed schedule of information requests and reports, such as other regulatory obligations at similar times.

20) For information that needs to be requested from market participants, whether any information can be effectively captured via voluntary requests.

21) Any relevant issues regarding the timing of reporting such as the value of certain information being available at certain times of year.

About Beovista

Beovista is an Energy Efficiency company. We provide products and services to our customers that save them capital and operating costs; contribute to meeting their sustainability targets; and keep their operations running smoothly.

Key Products in the energy efficiency sector include voltage optimisation technologies to reduce electricity consumption and demand. Services offerings include analysis and IPMVP based Measurement and Verification.

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