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19 December 2018

**Australian Competition and Consumer Commission**

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To the Australian Competition and Consumer Commission

**ACCC Monitoring of electricity supply in the National Electricity Market**

Powershop Australia Pty Ltd and Meridian Energy Australia Pty Ltd (collectively the **MEA Group**) thank the Australian Competition and Consumer Commission (**ACCC**) for the opportunity to provide comments on the discussion paper titled *ACCC Monitoring of electricity supply in the National Electricity Market (Paper)*.

The MEA Group recognises the importance of the ACCC's inquiry into the supply of electricity in the National Electricity Market (**NEM**), and the potential for the inquiry to assist in achieving positive short and long term outcomes for consumers, the greater community, the market and the industry. The MEA Group supports all measures that promote the interests of consumers and competition in the market without imposing additional regulatory costs or burdens. In particular, the MEA Group supports the ACCC's approach to, where practical, leverage existing data sources

The MEA Group has some concerns that the inquiry may place a disproportionate burden on new entrants and smaller retailers, and for minimal benefit. We would suggest this issue could be mitigated if the ACCC primarily focuses its data requests on retailers with the largest market share in each of the NEM states. MEA Group also suggests that the ACCC consider limiting the market monitoring requirement to an annual review.

Our detailed responses to the queries raised in the Paper are as follows.

Paper Ref	AEMC Question	Meridian response
Framework for monitoring and types of analysis	<p>1. The appropriate analytical framework(s) for the ACCC's monitoring activities, including:</p> <p>a) What frameworks are most relevant to the electricity market?</p> <p>b) How the ACCC should incorporate these overarching frameworks into its monitoring activities?</p>	<p>MEA Group's view is that the analytical framework most relevant for the electricity market is a 'legal framework analysis' which examines the regulatory framework supporting the electricity market. This is the most appropriate because it will highlight any deficiencies in the regulatory framework for a transitioning market – which is in line with the ACCC's terms of reference to the extent the then Treasurer, the Hon Scott Morrison MP, required monitoring of the market as it “undergoes a significant period of transition”. Understanding any deficiencies in the regulatory framework will enable the development of a streamlined approach to regulation that supports a 'future energy system'.</p>
Measures the ACCC will use	<p>2. ACCC invites stakeholder's views on current overlapping and inconsistent methodologies for market monitoring, and suggestions for preferred approaches.</p>	<p>MEA Group shares the ACCC's view that a NEM-wide approach to data collection is essential in providing governments and policymakers consistent information on how the market is operating – a true 'single truth' dataset.</p> <p>For the regulatory framework to operate efficiently in a rapidly changing market, the industry needs Victoria to join the National Energy Customer Framework (NECF) and for all state-based derogations and reporting requirements to be abolished and streamlined into a NEM-wide approach, supported by the Australian Energy Regulator (AER).</p> <p>Further, we would prefer the ACCC to review and consolidate all existing and useful data requests to a NEM-wide reporting framework supported by the AER.</p>
Retail Prices	<p>3. Which retail price data collected and reported on in REPI (as set out above) was insightful and should be produced on an ongoing basis as part of the monitoring function.</p> <p>4. Is there retail price data not reported on in REPI that would be useful to understanding how well the retail market is functioning?</p> <p>5. Are there different approaches to the analysis of REPI or other data that would be more useful than the analysis reported in REPI?</p>	<p>All the data reported on in the REPI and detailed in the discussion paper was insightful other than Figure 4 'Nominal international prices'. The MEA Group's view is that comparing prices internationally is not relevant for this purpose given the numerous different macro forces and market design which affect each country's electricity price.</p> <p>Other useful data sources the ACCC should consider are those concerning the number of customers on an expired benefit period contract and how much they could be paying on a comparable market offer.</p> <p>The collection of additional data and information on the number and type of market offers that retailers market within the NEM, will inform the ACCC on retailer pricing behaviour and on how confusing the market can be for customers.</p>
Effect of wholesale prices on retail prices	<p>6. The best way to measure the relationship between wholesale and retail prices over time, including:</p> <p>a) How wholesale prices affect retail prices and the ways in which this can be measured?</p> <p>b) What types of monitoring or analysis would best reveal the</p>	<p>MEA Group would stress that the relationship between wholesale costs and retail prices is extremely complex and difficult to measure. Retail prices are the function of a number of different inputs, including wholesale costs, which are managed differently by retailers, depending on their risk management strategies and risk appetite, status of business and current and future objectives. The correlation between wholesale costs and retail prices will increasingly become more complex with new regulatory impositions, uptake in</p>

	relationship between wholesale and retail prices	<p>solar, batteries and other embedded generation, and a transforming and volatile wholesale market.</p> <p>MEA notes that many past analyses have compromised utility as they compare retail prices comprising a base wholesale energy cost that is for a fixed volume of energy alone, when in fact retail costs are driven by other movements in wholesale costs, particularly the cost of actual consumer consumption (ie individual retailers' exposures to their own volume weighted energy purchases) and the costs associated with managing wholesale market volatility (eg caps and other hedging products).</p> <p>We note the finding of the ACCC in its original report that vertically integrated players pass the cost of energy to the retail arm of their business (often known as a transfer price) as a multiple of the forward wholesale price, which reflects the fact that, as noted above, the true cost of supplying energy to customers is higher than simply the cost of base energy. We note that this result has been widely misinterpreted as 'gouging' by large vertically integrated players when this is not the case.</p>
	7. What types of data are necessary to undertake this analysis?	<p>The ACCC should assess all existing data already collected by the AER, the Australian Energy Market Operator (<b>AEMO</b>) and other market bodies.</p> <p>The ACCC may also consider utilising data concerning the actual costs of all elements of the wholesale costs that underlie retail customer loads, taking into account varying customer load profiles and the costs of products for managing the exposure to and volatility of these differing load profiles. Further, data concerning the depth of relevant markets may also be useful if they can be obtained efficiently and to a sufficiently quantitative and qualitative form as to be effective for the purposes of the inquiry.</p>
Wholesale Market Prices	8. Analysis of the wholesale market that the ACCC could produce to complement the existing work of other agencies monitoring wholesale prices.	<p>The ACCC should assess whether any financial contract data is available from the ASX, the over the counter (<b>OTC</b>) market or other intermediary bodies.</p>
Generation and retail profits	9. In the case of wholesale profitability, what analysis could the ACCC produce to complement existing work monitoring generators or retailers?	<p>Analysis of the profitability of retail and wholesale components of the market is difficult and complex. The nature of vertical integration, with various differing structural examples seen across the NEM, ensures there is no simple, one size fits all allocation method of cost stacks. In addition, as we have indicated above retailer and generation businesses have varying risk management strategies and objectives, which further complicate cost allocations. The ACCC should, wherever possible, seek to review and assess market based data collected by AEMO and other regulatory bodies.</p> <p>As noted above, vertically integrated players pass the cost of energy to the retail arm of their business (often known as a transfer price) as a multiple of the forward wholesale price, which reflects the fact that the true cost of supplying energy to customers is higher than simply the cost of base energy. We note that this result has been widely misinterpreted as</p>

		'gouging' by large vertically integrated players when this is not the case.
Contract market Liquidity	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?	<p>The ACCC should assess appropriate data sources in relation to the hedging of capacity risk via the ASX and OTC markets. In addition, the ACCC should endeavour to source market data on load-following hedge contracts to provide arms-length data points on relatively "risk-free" hedging strategies.</p> <p>The ACCC should note that the prevalence of rooftop solar and batteries forms an integral and increasingly larger proportion of a retailer's wholesale portfolio. Understanding this generation source and profile will become more important in the future.</p>
	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.	No comment.
Expectations of market outcomes and market participant behaviour	12. How an efficient electricity market can be expected to operate.	<p>The MEA Group's view is that markets operate most efficiently when competition is allowed to flourish in a careful, prudently managed regulatory environment. The distribution and generation side of the market will continue to become more decentralised and de-carbonised than it is currently. In order to continue to achieve an efficient wholesale electricity market, the market as a whole needs investment in both generation (including dispatchable sources) and distribution to support both new technologies and renewable energy generation. This path is complicated by the uncoordinated environmental and energy policies at the state and federal level.</p> <p>From a retail perspective, regulatory frameworks need to focus more on customer outcomes as opposed to compliance heavy reporting regimes. This will allow retailers to focus their resources on innovation in customer experience and product design rather than attending to 'tick-box' compliance requirements and the associated heavy systems cost.</p>
	13. What specific measurements or thresholds of market outcomes or participant behaviour should be used in the ACCC's electricity market monitoring?	<p>Specific measurements may include:</p> <ol style="list-style-type: none"> <li>1. the reduction in the number of customers on standing offers (or their replacement);</li> <li>2. customer movement from large incumbent retailers to small retailers and the period the customer is then retained;</li> <li>3. customer movement to new innovative market offers; and</li> <li>4. the forms of innovation offered to customers with respect to pricing, customer service or other technological offerings.</li> </ol>
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?	There has been a multitude of national and state-based rule changes over the past 2 years which should all be monitored for their effectiveness. For example, in Victoria retailers have spent millions of dollars on the payment difficulties framework (PDF) with little obvious researched evidence of how it will benefit customers facing payment difficulties.

		At a national level, the absence of a coordinated energy and emissions policy has and will continue to shape energy prices and market design.
	<b>15.</b> What methodological approaches could be undertaken by the ACCC in monitoring the impact of particular policy developments?	A basic methodology using existing data (before and after the implementation of changes) should inform the ACCC's analysis. For example, the ACCC could determine the effectiveness of the PDF by monitoring debt and hardship numbers, in conjunction with retail prices, before and after the implementation of the PDF.
Process and timing for the collection of information	<b>16.</b> The proposed reporting schedule and how it may affect your business.	Smaller retailers, such as Powershop, do not have the resources to manage the type of reporting and frequency proposed by the ACCC. To support such a reporting regime may require additional resources and system development, further removing focus from the customer to compliance requirements.  The ACCC could form a relatively comprehensive view of the market by limiting comprehensive monitoring to no more than once a year and holding bilateral discussions on a more regular basis.
	<b>17.</b> 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).	Like other retailers, Powershop reports to both national and state regulators and bodies on matters such as customer numbers, customer welfare (hardship, concessions etc.), environment and pricing. Additionally we also undertake audits to provide a level of assurance on some of the reporting obligations. As noted by the ACCC in its original report, the cost of reporting in response to multiple regimes only adds to the end cost for customers.
	<b>18.</b> 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?	Where possible data collection should be aligned with timeframes imposed by the AER and other industry bodies.
	<b>19.</b> Factors that may impact the proposed schedule of information requests and reports such as other regulatory obligations at similar times.	No comment.
	<b>20.</b> For information that needs to be requested from market participants, whether any information can be effectively captured via voluntary requests.	No comment.
	<b>21.</b> Any relevant issues regarding the timing of reporting such as the value of certain information being available at certain times of year.	No comment.

If you have any queries or would like to discuss any aspect of this submission please do not hesitate to contact me.

Yours sincerely

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CEO

Meridian Energy Australia Pty Ltd