

15 December 2022

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Dear Mr Wilson,

RE: Essential Services Commission of South Australia's Inquiry into Retail Energy Prices

The South Australian Council of Social Service (SACOSS) is the peak body for non-government health and community services in South Australia with a mission to advocate for the interests of people on low incomes or experiencing disadvantaged across the state. We thank the Essential Services Commission of South Australia (ESCOSA) for the opportunity to provide submissions on the *Inquiry into Retail Energy Prices Terms of Reference*, dated 30 November 2022 (the Inquiry ToR).

Background

In the context of recent extreme energy market volatility and significant current and projected increases in retail energy prices in South Australia, the Hon Tom Koutsantonis, Minister for Energy and Mining, has referred the following matter to ESCOSA for Inquiry (clause 3.1 of the Inquiry ToR):

- 3.1 The Commission to conduct and Inquiry into evidence of, or the potential for, a party (retailer, generator, trading entity or relevant other party) in the electricity industry and/or the gas industry to earn or have earned sustained super profits to the financial detriment of South Australian energy consumers, having regard to:*
- 3.1.1 the structure and operations of the National Electricity Market's electricity price settlement process*
 - 3.1.2 the structure and operations of the associated electricity financial trading arrangements*
 - 3.1.3 the structure and operations of the natural gas trading market*
 - 3.1.4 the vertical integration of energy (electricity and/or gas) entities, and*
 - 3.1.5 the potential impact of international gas market outcomes on the abovementioned markets and entities*

In undertaking the Inquiry, the Inquiry ToR set out matters ESCOSA should consider, including 'any other matters it considers relevant' (clause 3.2.4 of the Inquiry ToR). The

Inquiry ToR also provide ESCOSA with the broad discretion to make recommendations it considers appropriate, with a focus on changes that could be made to the regulatory framework to better protect the long-term interests of South Australian energy consumers, including appropriate incentives and penalties (clause 3.3 of the Inquiry ToR).

This submission will provide a brief picture of the current energy affordability crisis facing people on low incomes or experiencing disadvantage in South Australia, and will then pose a number of questions for ESCOSA to consider as part of its Inquiry.

Energy affordability in South Australia

South Australians are currently experiencing an energy affordability crisis, and SACOSS is overwhelmingly concerned about the disproportionate impact of energy prices on people experiencing vulnerability in South Australia (whether due to individual circumstances - low-income, disability, mental health - or complexities in the energy market itself).

The AER's *Annual Retail Markets Performance Report 2021-22*, provides a picture of the experience of South Australian energy consumers to 30 June 2022, but we know that prices have continued to rise in the last five months to December 2022, and are projected to increase even further in the coming years.

The AER's Report shows that, as at 30 June 2022:¹

- South Australia had the highest electricity price per unit in the National Electricity Market (NEM), with wholesale costs typically higher in South Australia, and network costs above the NEM average.
- the median market offer in SA was the same as the standing offer (Default Market Offer) of around 45 cents per kWh, the highest in the Nation. In 2020-21, the median market offer in SA was around 36 cents per kWh, where the standing offer was around 42 cents per kWh.² This represents a 25% increase in the median market offer in SA over the 12 months to 30 June 2022.
- In terms of affordability (calculated on the basis of the AER's Pricing and Affordability methodology), SA has the second most unaffordable energy behind Tasmania, this is despite SA having amongst the lowest average household electricity usage in the Nation (4,526 kWh). Tasmania has a much higher average annual electricity usage of 8,393 kWh.
- Electricity in SA in 2021-22 was more unaffordable than last year, with low income consumers spending 5% of their disposable income on electricity, compared to around 2% for average income consumers.
- Importantly, it is estimated that hardship households in SA use 73% more energy than the average SA households (7,830 kWh average annual hardship household usage, compared to 4,526 kWh for average households). Which means energy is more unaffordable for hardship households in SA, at **around 8% of disposable income**.³

¹ Australian Energy Regulator, [Annual Retail Markets Report 2021-22](#), November 2022, p.31-45

² Australian Energy Regulator, [Annual retail markets report 2020-21](#), November 2021, p. 33

³ Australian Energy Regulator, [Annual Retail Markets Report 2021-22](#), November 2022, p. 129

- Energy debt levels are worsening across all indicators, clearly demonstrating an energy affordability crisis in South Australia:
 - South Australia has the largest average residential energy debt in the NEM. The average debt of residential customers in SA is now \$1,321, \$320 above the National average of \$997. This represents an increase of \$277 in the average amount of residential energy debt in SA from 2018/19 (pre-pandemic) levels.
 - Average debt on entry into hardship programs in SA in 2012-22 was \$2,185 (highest after Tasmania), which is \$553 more than pre-pandemic levels of \$1,632 in 2018-19, and \$493 above the national average of \$1,692.
 - Average debt of hardship customers has also increased significantly from pre-pandemic levels - in 2021-22 the average debt of a SA hardship customer was \$2,424 (highest after Tasmania), up \$561 from \$1,863 in 2018-19, and \$651 above the national average of \$1773.

The disparity between low wholesale spot prices in South Australia, and the high wholesale prices actually charged to energy consumers is contributing to the energy affordability problem in this state. Over the last few years, spot market electricity costs in South Australia have fallen to amongst the lowest in the NEM, but energy consumers are not seeing the benefits flow through, and continue to pay the highest price per unit for electricity in the nation. The South Australian Productivity Commission's *Inquiry into South Australia's Renewable Energy competitiveness* found that:⁴

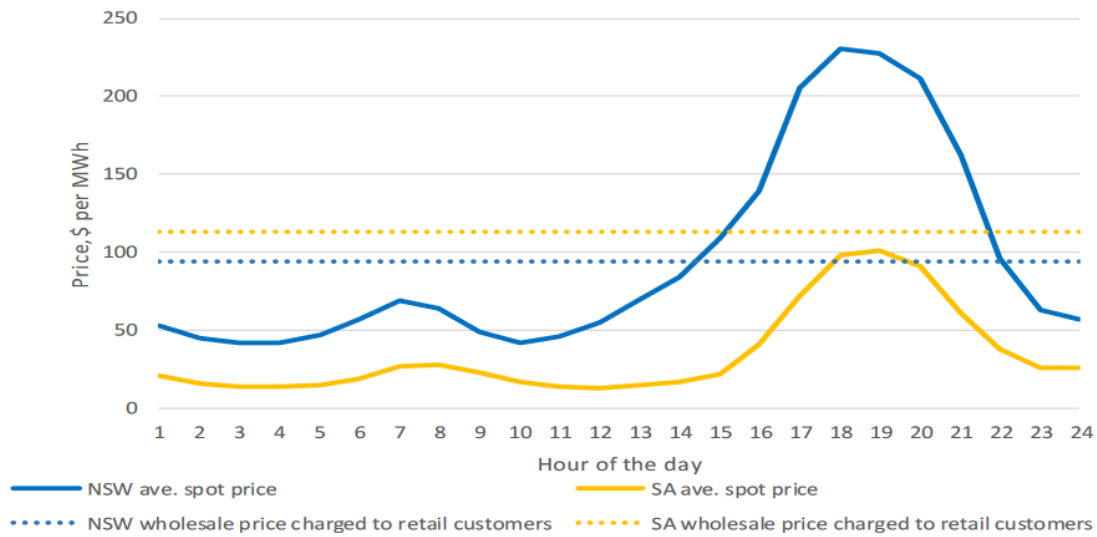
The illiquid and highly concentrated market for 'on-demand' electricity in South Australia means that it is expensive to hedge spot market prices, creating a much larger wedge between the (generally low) spot market prices and the wholesale price passed through to electricity consumers. For example, in 2020-21 demand-weighted spot prices averaged \$55.4/MWh in South Australia, 24 per cent cheaper than the average spot price in New South Wales. However, the wholesale price passed through to South Australian consumers averaged more than twice this at \$113.1/MWh and was significantly higher than the wholesale price in New South Wales (\$94.1/MWh).

The difference in wholesale spot prices paid by retailers in South Australia, and the wholesale prices passed through to South Australian consumers is clearly illustrated in the graph, below:⁵

⁴ South Australian Productivity Commission, [Inquiry into South Australia's renewable energy competitiveness: Final Report](#), 10 August 2022 (published 9 November 2022), p. 7

⁵ South Australian Productivity Commission, [Inquiry into South Australia's renewable energy competitiveness: Final Report](#), 10 August 2022 (published 9 November 2022), p. 46

Figure 2.4: Average spot electricity prices by hour of the day and wholesale price charged to consumer – SA and NSW (2020-21)



Source: AEMC Residential Electricity Price Trends Report (2021)

SACOSS' questions for ESCOSA's Inquiry into Retail Energy Prices

Against this background, SACOSS is posing the following questions for ESCOSA to consider as part of its Inquiry:

- In the absence of any visibility of contract information, options and risk management practices of retailers, the liquidity of the South Australian electricity market alone is an insufficient explanation for energy consumers being denied the benefits of low wholesale spot prices. ***Will ESCOSA have visibility of all energy trading practices (including futures and OTC trades) of retailers, vertically integrated retailers and non-market participants to establish what is actually paid for wholesale electricity in South Australia? To what extent is the gap between the spot price determined by short-term profit taking rather than genuine costs of production? To what extent does the gap between the spot price and the price to retail customers reflect costs of production or market volatility? Is further regulation required to ensure that market price to customers reflects genuine costs of production rather than trading costs?***
- The composition of retail costs passed onto South Australian energy consumers is opaque. ***Will ESCOSA have visibility of, and make findings on, the efficiency of and justification for all retail costs passed onto consumers? How much money is spent by retailers in advertising, and (given electricity is ultimately a standard product), does this represent value for money for South Australian consumers? Should there be a cap or regulatory guidelines around retail advertising?***
- The Australian Energy Market Commission (AEMC) has recommended an accelerated roll-out of smart meters in South Australia to reach 100% penetration by 2030. This

will place an additional cost burden on energy consumers. ***Given South Australia has one distribution network service provider (SA Power Networks), would South Australian consumers benefit from the responsibility for metering reverting back to the DNSP in this state?***

- South Australians currently pay the highest distribution network costs in the NEM, and have paid the most in supernormal network profits over the past 7 years (\$1,231 per customer), increasing the retail cost for SA customers by 8.1%.⁶ ***Which if any of the changes recommended in the IEEFA report would ECOSA consider as having a substantive impact on the “supernormal profits” of distribution networks? Given that the rate of return is benchmarked to utility networks’ industry averages, which may all carry mark-ups arising from monopoly or imperfect competition, to what extent do even these “normal” returns contain elements of “supernormal” profits – and as an alternative, what would an appropriate “normal” rate of return be benchmarked against? What other changes to the National frameworks could ESCOSA recommend to reduce the supernormal network profits enjoyed by SA Power Networks, but paid for by consumers?***
- Affordability and equity considerations are of primary importance in ensuring the energy market operates to achieve the protection of the long-term interests of all consumers. The Energy Ministers have determined to include an emissions objective into the National Energy Objectives, ***what differences to regulation might the inclusion an “affordability” or “equity” objective make? And will ESCOSA recommend changes to the national frameworks to also include an “affordability” or “equity” objective within the National Energy Objectives?***
- The policy objective for the Default Market Offer (DMO) applying in South Australia is to operate as ‘a fall-back for those who are not engaged in the market and should not be a low-priced alternative to a market offer’, whereas the policy objective of the Victorian Default Offer (VDO) is to ‘provide a simple, trusted and reasonably priced electricity option that safeguards consumers unable or unwilling to engage in the electricity retail market’. The Essential Services Commission of Victoria’s approach to ensure the VDO provides access to a fair price has resulted in better outcomes for consumers than the DMO’s price cap, ***will ESCOSA consider a recommendation to derogate from the National Frameworks to provide for the establishment of a jurisdictional default offer, ensuring South Australian energy consumers have universal access to a “fair” price?***

⁶ Orme, Simon, Institute for Energy Economics and Financial Analysis, [Regulated Electricity Network Prices are Higher than Necessary: An assessment of the Economic Regulation of Australia’s Electricity Networks](#), October 2022, p. 5-6

- SACOSS remains concerned about smart meter customers on standing offers in South Australia being automatically shifted to a time of use (TOU) retail tariff⁷ with no ability to opt out, or change usage patterns, meaning those customers face higher retail tariffs for longer peak periods. ***Will ESCOSA ensure that all South Australian smart meter customers are provided with advanced notification of retail tariff changes, and are able to retain the right to choose the best retail offer that suits their circumstances?***
- South Australian smart meter energy consumers experiencing payment difficulty face the prospect of remote disconnection for non-payment by their retailers. To better protect South Australian consumers' long-term interests in the delivery of reliable energy services, ***will ESCOSA recommend changes to local Regulations to ensure remote disconnection of smart meter customers for non-payment is prohibited in South Australia?***

If you have any questions in relation to this submission, please contact Georgina Morris at georgina@sacoss.org.au or 8305 4214.

Yours sincerely,



Dr Rebecca Tooher

Director of Policy and Advocacy
South Australian Council of Social Service

⁷ The percentage of customers in SA on a time of use or flexible retail tariff, with an underlying distributor based time of use or flexible network tariff, has increased from 15.8% 12 months ago, to 68% in Q4 2021-22, See [AER Retail Performance Data Q4 2021-22](#)