

NSW Upper House Committee: Inquiry into NSW electricity, supply, demand and prices.

Questions on Notice to EnergyAustralia

Q1. EnergyAustralia is both a generator and retailer of electricity. Could you outline how you buy energy from yourselves to sell to your retail customers?

In NSW, EnergyAustralia generates approximately 9 terawatt hours (TWh) per annum (p.a.) of energy from our power stations and we sell approximately 11TWh p.a. to our customers. We trade in electricity and gas markets to buy energy for and manage the price and volume risk in supplying our customers and sell the output and manage the outage risk of our generators.

All of our internal trades are done and recorded at market prices. The electricity our customers receive is priced at market rates.

We purchase energy for our customers using a hedging strategy that is governed by our Energy Risk Policy. Using this approach, we buy energy on the market, either externally or from our generators, and the sum of all our purchases leads to the creation of the wholesale energy cost component, known as a transfer price. The transfer price forms the wholesale cost that is an input into retail prices.

This approach is used for all our customers regardless of what generation we have in each State. That is, we have no generators in Queensland and several in Victoria, but we use the same approach to purchasing energy in all states.

Q2. From 2014 to 2016 what has been EnergyAustralia's revenue, what has been your taxable income and what tax have you actually paid in this country?

Table 1: EnergyAustralia Earnings and tax paid (all jurisdictions)

A\$M	2014	2015	2016	2017
Revenue*	7,284.0	6,151.3	6,316.3	7,637.4
EBIT*	-25.9	1,543.2 [#]	502.5	654.3
Net Profit after tax*	-40.1	915.7	331.5	485.9
Total Tax Paid	21.86	22.85	25.67	116.25
<i>Royalties</i>	8.39	8.96	9.23	27.26
<i>Land tax</i>	0.26	0.24	0.22	0.22
<i>Stamp Duty</i>	-0.17	0	1.41	0
<i>Payroll tax</i>	13.1	13.37	14.27	15.54
<i>FBT</i>	0.28	0.28	0.54	0.31
Corporate Income Tax Paid**	0	0	0	72.92
Return on Invested Capital (ROIC) [^]	3.30%	4.60%	5.90%	9.20%
ACOI (Adjusted Current Operating Income) Total ***	285	372	423	682
Customer (Retail) Segment ACOI***	183	459	510	523
Energy (Wholesale) Segment ACOI ***	316	168	246	463
Enterprise (Corporate) Segment ACOI***	(214)	(255)	(333)	(304)

* Sourced from Statutory financial statements lodged with ASIC.

^ Sourced from https://www.clpgroup.com/en/Investors-Information-site/Analyst%20Brief%20Document/2017%20CLP%20Annual%20Results_Final.pdf

** In addition to the tax disclosed above, a further \$22,619,573 in PAYG income tax instalments has been paid for FY18

Earnings in 2015 include the gain on sale of the divestment of the Iona Gas Plant

*** Sourced from CLP Group 2015 Annual Results Analyst Briefing presentation, February 2016, p. 55, CLP Holdings 2016 Annual Results Analyst Briefing presentation, February 2017, p. 45, CLP Holdings 2017 Annual Results Analyst Briefing presentation, February 2018, p. 49.

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EnergyAustralia has consistently paid a range of taxes, such as payroll tax and fringe benefits tax. The nil corporate income tax paid during 2014 – 2016 is the result of accumulated group losses and/or accounting losses incurred during the period, consistent with Australian corporate tax laws.

In October 2017 EnergyAustralia commenced paying corporate tax monthly to the Australian Tax Office (ATO) to reflect a gradual return to profitability. Further to the data in the table above, EnergyAustralia has paid \$22,619,573 in corporate PAYG income tax instalments for the financial year 2018 to date.

Based on total gross revenue, the company is classified as a “key taxpayer” by the ATO. As a key taxpayer, EnergyAustralia is in regular and direct contact with the ATO. EnergyAustralia regularly engages with the ATO to confirm its compliance with tax obligations and discuss issues as the year progresses, in line with its commitment to open and transparent dealings.

Q3. EnergyAustralia to provide hardship numbers for the past 3 years.

The number of electricity customers on hardship program in NSW is identified in the table below.

	June 2014	June 2015	June 2016	June 2017	Dec 2017
EnergyAustralia	3,517	5,157	3,360	3,135	4,141

Source: <https://www.aer.gov.au/retail-markets/retail-statistics/nsw-customers-on-hardship-programs>

Q4. What have EnergyAustralia’s retail margins been each year since deregulation in 2014?

As it is well understood, electricity bills comprise of four main components; wholesale energy (28% of the total NSW bill), Network costs (49%), Retail costs (15%) and green scheme costs (8%). Over the past decade we have seen these components move up and down. For example, the committee is aware of the significant increase in network costs following the changes to network reliability standards in 2009. However, since 2016 network prices have been declining or stable. In the early part of the decade, wholesale prices were relatively stable during a period of market over-supply but increased by around 50% in NSW last year following the sudden retirement of thermal generation in Vic and SA and co-incident increases in the commodity price of gas.

Operating income from EnergyAustralia retail operations (along with other business segments) is shown in Table 2 below for the period 2014 to 2017. It broadly shows that EnergyAustralia earnings and Return on Invested Capital (ROIC) returned to sustainable levels in 2017 following many years of wholesale oversupply and challenging market conditions.

EnergyAustralia's Adjusted Current Operating Income (ACOI) increased from 2014 to 2015 as shown in Table 2. In 2014, the migration of NSW customers from legacy Ausgrid systems to the EnergyAustralia billing system occurred and the Ausgrid Transition Services Agreement (TSA) ended. 2014 retail costs were significantly higher than 2015 as a result of this change and associated write-off of doubtful debt.

Table 2: EnergyAustralia Operating Income (all jurisdictions, not just NSW)

A\$M	2014	2015	2016	2017
Customer (Retail) Segment ACOI*	183	459	510	523
Energy (Wholesale) Segment ACOI *	316	168	246	463
Enterprise (Corporate) Segment ACOI*	(214)	(255)	(333)	(304)
ACOI (Adjusted Current Operating Income) Total *	285	372	423	682
Return on Invested Capital (ROIC)^	3.30%	4.60%	5.90%	9.20%

* Sourced from CLP Group 2015 Annual Results Analyst Briefing presentation, February 2016, p. 55, CLP Holdings 2016 Annual Results Analyst Briefing presentation, February 2017, p. 45, CLP Holdings 2017 Annual Results Analyst Briefing presentation, February 2018, p. 49.

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As mentioned during the hearing, the question on retail margins has been addressed in recent reports by the relevant regulators, the ACCC and IPART. Also the AEMC, the energy market rule maker, each year releases an annual report into retail energy market competition that examines and comments on retail margins. As you would appreciate, retail margins are commercially and competitively sensitivity and we have assisted and provided information to regulators under confidentiality regimes. This information is reflected in their analysis and reports.

We refer you to the work of the regulators including IPART¹, the ACCC² and the AEMC³. We would also highlight that a common source of confusion in the commentary on margins is the

¹ IPART Report - Review of the performance and competitiveness of the retail electricity market in NSW. Nov 2017 <https://www.ipart.nsw.gov.au/files/sharedassets/website/shared-files/investigation-compliance-monitoring-electricity-publications-market-monitoring-201617/final-report-review-of-the-performance-and-competitiveness-of-the-retail-electricity-market-in-nsw.pdf>

² ACCC Report – Retail Electricity Pricing Inquiry. Preliminary Report. 22 September 2017 <https://www.accc.gov.au/system/files/Retail%20Electricity%20Inquiry%20-%20Preliminary%20report%20-%202013%20November%202017.pdf>

³ AEMC – 2017 Retail Energy Competition Review. 25 July 2017 <https://www.aemc.gov.au/markets-reviews-advice/2017-retail-energy-competition-review>

actual definition of a 'margin'. We would note that retail margin usually reported is 'gross margin' that includes retailer operating costs and therefore should not be equated with profit.

IPART analysed whether the most recent price change reflected the change in costs, and IPART considered what happened to retail costs and margin. They found no strong evidence that the margins being earned by electricity retailers in NSW suggests that the level of competition is not developing effectively. Retail margins are in line with the EBITDA margins earned by a large sample of listed retailers across a range of different retail sectors in Australia, Canada, the United States and the United Kingdom

Likewise, the ACCC in its Preliminary Report into the electricity market found that retail operating costs have not increased since price deregulation.

The AEMC noted that between 2014-15 and 2015-16 the gross margins for the big 3 retailers decreased overall across New South Wales. Their next report covering the most recent 2015-2016 to 2016-17 period is due to be released in mid-June 2018. The AEMC also provide a thorough breakdown of the definition and analysis of retail electricity gross margins.

Supplementary Questions

Q5. Does EnergyAustralia have a policy regarding the use of telemarketing to attract new customers? If so, please provide details.

EnergyAustralia adheres to the *Telemarketing & Research Industry Standard 2007*, this is embedded within existing operational processes.

Q6. Are there consistent guidelines followed by EnergyAustralia call centre staff that determine the service offers made to potential customers during targeted or "cold" calls? How are these offers determined?

Offers for outbound marketing are consistent with those available in market for new acquisition customers (i.e. our inbound customers who proactively contact the call centre). Product offering is based upon the geographical region being dialled and the customer needs relative to the available offers.

Q7. At what Time of day does most of EnergyAustralia's telemarketing take place? Are certain demographics (in particular the elderly) targeted at certain times of day?

EnergyAustralia outbound telemarketing department dial between 9am – 6am on weekdays as standard operating practice. Any nonstandard activities outside of this are in accordance with the standard noted above.

There are no specific dialling priorities based on any demographic information. Dialling lists are categorised based on geographical location.

Q8. Can EnergyAustralia guarantee that their retail marketing practices, in particular telemarketing, do not unfairly target the elderly?

Yes, as noted above no demographic targeting occurs as part of normal business practice.

Q9. What is the mechanism for returning over-recovered network costs to consumers?

The Australian Energy Regulator (AER) determines the allowable revenues the network businesses can charge customers through a revenue determination process. This is a technically complex process and we would refer you to the AER for further information.

a. Why are networks not obliged to provide consumers with a cash refund in the event they over-recover from their customers in any given period?

As this is a matter of network regulation, we consider that that is question best directed to the AER.