

INQUIRY INTO ELECTRICITY SUPPLY, DEMAND AND PRICES IN NEW SOUTH WALES

Organisation: 1st Energy
Date received: 8 December 2017

08 December 2017

The Director
Select Committee on Electricity Supply, Demand and Prices in New South Wales
Parliament House
Macquarie Street
Sydney NSW 2000

Sent via email to: electricitysupply@parliament.nsw.gov.au

Dear Select Committee,

Re: Inquiry into Electricity Supply, Demand and Prices in New South Wales

I refer to your letter dated 09 November 2017 in respect of the New South Wales Governments inquiry into Electricity Supply, Demand and Prices in New South Wales and provide thanks to the Select Committee for the opportunity to provide a response.

1st Energy is a non-integrated, second-tier electricity retailer for residential and SME customers. Founded in April 2015, 1st Energy operates throughout the eastern states of Australia including New South Wales, Queensland and Victoria.

In response to the inquiry our responses to the specific questions are set out below.

a) the reasons for recent large increases in the price of electricity

The recent large increases in the price of electricity can be principally attributed to the increasing costs of purchasing wholesale electricity. 1st Energy primarily derives revenue through the retail sale of purchased electricity from generators to consumers, utilising third party existing electricity distribution networks and connections. To control the risk of price volatility in the spot market, hedging forward exposure is a fundamental part of our business.

In 2017, the underlying costs of wholesale escalated due to the decreased supply of baseload generation; essentially driven by the shutdown of coal-fired powered stations, i.e. Hazelwood without a readily available and reliable replacement source; ultimately placing upward pressure on reliable NSW baseload generation and increasing gas costs.

Accordingly, the risk increased in the wholesale market and this was immediately reflected in the price of electricity as set out in the graph below:

Figure 4.2 ASX NSW Base Load electricity contract prices for 2017-18 (\$/MWh)



Note: Series is ASX base strip prices for 2017-18 from 1 July 2016 to 11 April 2017.

Data source: Thomson Reuters.

b) the impact of the deregulation of electricity prices in 2014

1st Energy firmly supports deregulation of electricity prices. Deregulation has allowed new entrants into the market, promoting dynamic competition and requiring existing retailers to strive to lower their prices and improve the quality of their products and services.

Deregulation stimulates the market to provide new service offerings to customers and an example of this is our “my billing” product. 1st Energy proactively offers monthly billing for all customers which can be based on actual reads or a customer nominated amount; our experience has shown monthly billing removes “bill shock” and allows a customer to budget more effectively.

This is demonstrated by an increased number of consumers in NSW shifting from standard retail contracts to market retail contracts since price deregulation in 2014. The percentage of consumer on market retail contracts has increased from 69% in 2014/15 to 78% in 2016/17, as provided in the Australian Energy Regulator annual performance reports for 2014/15 and 2016/17.

c) alleged collusion and price gouging by energy retailers

1st Energy is not aware of any allegations of collusion and price gouging by energy retailers.

Retail energy markets are complex and the amount that a retailer charges a customer for its services differs between retailer’s dependent on many factors including:

- service offerings
- product offerings
- price offerings
- operational costs
- wholesale arrangements
- acquisition programmes
- retention programmes
- customer numbers

d) the effectiveness or impact of any current regulatory standards and guidelines,

1st Energy is supportive of well-placed regulation that removes unnecessary risk for innocent by-standers; however, regulation should not encourage consumers to forego trust in the market. Consumers demonstrate daily their ability to self-regulate and make choices on what they buy and sell.

1st Energy believes there are opportunities to revise the current arrangements for the transfer of customers which will provide a long-term benefit for consumers.

In the current transfer system retailers receive a notification that a customer has requested to transfer to another retailer, which is prior to a subsequent customer loss notification that can take up to 90 days to complete. Retailers with entrenched customers generally only offer customers improved pricing when the transfer request notification is received, rather than proactively offering consumers better deals that they knowingly have available.

The removal of this redundant transfer request market notification would have the outcome of encouraging all retailers to proactively market back into their existing customer base to ensure they didn't lose customers to begin with rather than relying on customer apathy as a retention tool.

Our experience is that this customer experience feeds negative customer sentiment and ultimately mistrust in the industry.

Furthermore, 1st Energy would encourage the Select Committee to consider the costs, ultimately born by consumers, when regulation becomes overly burdensome and a distraction from delivery of the core service offering and/or focussing on innovation.

e) options for future government oversight and responsibility in the re-regulation of electricity prices,

1st Energy is firmly of the view that re-regulation of electricity prices will restrict competition and disincentives existing retailers to have cost and market reflective offers. Competition stimulates businesses to lower their own costs and run their businesses as efficiently as possible and an efficient and fair market is essential for catalysing private sector development and economic growth.

The Select Committee could consider how targeted regulation could be designed that protects vulnerable/hardship customers; potentially this could be achieved through a 'social tariff' managed through the relevant government department and removes the ambiguity that currently exists in identifying vulnerable/hardship customers.

f) the adequacy of planning to meet future electricity demand, including utilising high efficiency, low emissions coal technology as well as the use of nuclear, gas, solar and wind energies, and energy storage through batteries, pumped hydro and hydrogen, and improved transmission between regions,

1st Energy encourages a forward view that encompasses industry consulted transition planning if and when existing baseload power shuts down and alignment of regulation and governments. We also believe that a coordinated approach across government and industry is needed to ensure that sufficient Australian natural resources remain available to Australian consumers at competitive prices. It is imperative that there is a smooth transition of fuels to avoid a short term disconnect between wholesale prices and retail tariffs. The export of LNG has caused wholesale gas prices to increase sharply, which increases the wholesale price at which gas fired generators bid into the market.

Consideration should be given to both price spot and wholesale price impacts as intermittent generation has traditionally struggled to supply an equivalent level of contracts to that of a coal fired generator. This can potentially have the impact of increased wholesale contract prices due to a shortage of firm contracts or alternatively changing the risk profile of a retailer forced to buy non-firm contracts.

- g) the adequacy of programs to assist low income earners, pensioners and senior card holders to afford electricity as well as the impact of additional fees, such as late payment fees, included in energy bills,**

1st Energy understands rising energy costs and general cost of living increases place affordability burdens on our customers, particularly vulnerable customers. 1st Energy actively markets to customers providing choice and promoting competition. Our core value proposition to customers is offering competitive pay on time discounts and when our customers agree to participate in our hardship program we guarantee the pay on time discount, (when the customer meets the agreed payment plan arrangement).

It's our view that there's opportunity to align the concessions framework nationally to minimise administrative and operational costs. As stated earlier the Select Committee could consider how targeted regulation could be designed that protects vulnerable/hardship customers; potentially this could be achieved through a 'social tariff' managed through the relevant government department and removes the ambiguity that currently exists in identifying vulnerable/hardship customers.

- h) any other related matter.**

In summary, 1st Energy is supportive of an environment that promotes competition, allowing the market to respond to pricing signals and consequently apply downward price pressure on the "big three" retailers.

The market should be underpinned by sensible regulations that achieve a balance between the responsibility to protect vulnerable/hardship customers, whilst at the same time not resulting in unnecessary costs on the broader community.

1st Energy thanks the Select Committee for the opportunity to provide a response to the inquiry. 1st Energy is keen to work collaboratively with the industry to ensure customers' needs are met in an affordable manner for all and would welcome the opportunity to participate in any ensuing discussions.

For any queries regarding this response, please contact Aneta Graham, Head of Regulatory and Compliance,

Yours sincerely

Liam Foden
Managing Director
1st Energy Pty Ltd