

13 October 2023

Dr Matt Shahnazari
Economic Regulation Authority
Level 4, Albert Facey House
469 Wellington Street, Perth WA 6000
Lodged electronically at: <https://www.erawa.com.au/current-consultations>

Dear Dr Shahnazari

Electricity Generation and Retail Corporation Regulatory Scheme 2023 Review: Discussions paper

Change Energy welcomes the opportunity to comment on the Economic Regulation Authority's (ERA's) discussion paper for the 2023 review of the effectiveness of the Electricity Generation and Retail Corporation Regulatory Scheme (EGRC Scheme).

We note that the EGRC Scheme was put in place when the former Verve Energy and Synergy businesses were merged in 2014, to limit the new vertically integrated business from exercising market power in the Wholesale Electricity Market (WEM). The scheme has a number of key elements. Our views on each are discussed in the following sections.

The provision of 'standard products'

We consider the requirement under the EGRC Scheme for Synergy to provide standard products is fundamental to supporting private sector retail participation in the WEM. As one of the last remaining small retailers in the WEM we cannot stress enough that the continued requirement for Synergy to offer standard products is crucial to our business.

Change Energy understands the ERA is considering placing restrictions on certain participants from trading standard products. We do not consider this will provide any benefit. Standard products are not frequently transacted. They provide a back-stop price from which we negotiate and transact non-standard products and initiate trades with other participants in the wholesale market. In effect, having the standard products available, forces Synergy to offer other products.

There are limited alternatives to Synergy's wholesale contracts for retailers, as other vertically integrated participants tend to withhold any available energy for the benefit of their retail operations rather than sell it to a third-party competitor.

Should the ERA be seeking to increase the availability of energy for trade, we support the ERA investigating alternatives such as Great Britain's 'Secure and Promote' licence conditions to see if they could apply in WA. Alternatives such as these would force other generators to 'make markets' thereby enhancing competition in both in the wholesale and retail markets.

Public disclosure of financial information

We do not consider the requirement for Synergy to provide segmented financial information to be overly valuable. These requirements do not prevent Synergy from adjusting the financials of each of the business units to deliver specific, beneficial outcomes.

For example, Synergy's retail business unit could be making a loss given the way it chooses to price its contestable commercial retail customers. However, this can be accounted for in either the wholesale or generation business unit. This would show Synergy's retail business unit to be pricing in line with its cost to supply. Thus in theory, it would not be participating in anti-competitive behaviour and would be able to claw that loss back through those business units without the pressure of competition.

Change Energy supports the ERA's recommended option to remove the disclosure requirements.

Should the ERA want to better understand the issues private sector participants face in a market dominated by Synergy, we consider a more practical and effective alternative could be for the ERA to use customer and participant surveys to gather anecdotal evidence regarding Synergy's behaviour, which would then be used as the basis for further investigation.

Ring fencing requirements

We note the ERA is considering whether or not to retain the ring fencing obligations currently placed on Synergy. We do not consider ring fencing arrangements materially change Synergy's behaviour in the contestable retail market.

We consider more needs to be done to hold Synergy to account to manage the retail business unit commercially, as it is competing with the private sector for customers. Equally importantly, we consider more needs to be done to ensure the business overall is managed as a commercial business for the owners of Synergy (the people of WA).

We expect the removal of the ring fencing arrangements could result in a positive outcome. Allowing the retail business unit access to more information in relation to generation costs and wholesale electricity contracts, may improve the commerciality of the retail business unit, and help Synergy overall understand its financial position, thereby making better contracting decisions.

Transfer pricing mechanism

We note the ERA is considering whether or not to retain the transfer pricing mechanism. We do not believe Synergy uses the mechanism when pricing contestable customers, it would therefore have a minimal impact on outcomes if it was to be removed. Should the ERA consider it important to retain, it should seek to enforce the use of the mechanism, and support this with effective monitoring and compliance activities.

If you have any questions, or would like to arrange a meeting to discuss any aspect of this submission, please contact me on [REDACTED] or at Geoff.Gaston@changeenergy.com.au.

Yours Sincerely,

[REDACTED]
Geoff Gaston
Change Energy