DIRTY POWER GAMES

GetUp!

About this report

Dirty Power Games shows that the National Electricity Market is not working in the interests of either large or small consumers, and that South Australian consumers are getting an especially raw deal. It is based on the findings of two new reports by energy economist Bruce Mountain.

Australia's retail electricity markets: who is serving whom?

When a customer opens a bill from their retailer it's hard to tell where all the costs are coming from. This makes it easy for the Big Three retailers – AGL, Origin, and EnergyAustralia – to blame generators, network companies, or even the renewable energy target for customers' rising bills. Using a sophisticated new data-mining technique, Bruce Mountain has separated out how much the Big Three charge for retailing electricity, compared to the costs of actually generating it.

South Australia's wholesale electricity market: what really happened in July 2016?

Price-gouging by gas generators in South Australia has often been suspected, but rarely proven - until now. By taking a snapshot of the behaviour of gas and diesel companies on July 7, this report finds clear evidence that electricity prices in South Australia didn't just rise automatically - they were pushed up by a handful of companies with too much market power.

Bruce Mountain specialises in the economic regulation of energy markets and the design of electricity networks. His groundbreaking research was funded by generous donations from 1735 GetUp members – a group of everyday Australians who came together to shine a light on what's really pushing up Australia's power prices.

Full reports are available at:

http://www.getup.org.au/dirty-power-games

For additional information please contact: info@getup.org.au

KEY FINDINGS

Energy companies are getting away with exploiting both large and small customers, because the market is failing to deliver genuine competition. Regulators have been asleep at the wheel, except in the ACT, where the regulated retailer is delivering some of the best value electricity in the country.

The big retailer rip-off

Deregulation has failed to deliver for consumers. For customers of the Big Three, charges for retailing electricity have grown from an insignificant slice of a household's bill to 38% of it – far more than the cost of producing the electricity.

The Big Three energy retailers are charging their customers two to three times more in deregulated markets than the regulated retailer charges in the ACT.

The Big Three are having a field day in South Australia

South Australian residents are paying almost twice as much to the retailers that sell electricity than they pay to the companies that actually generate the electricity.

The Big Three are billing South Australian customers $650 a year just to act as a go-between for wholesalers and network companies – more than any other state.

Gas company gouging was the main reason for South Australia's recent price spikes

The behaviour of gas generators on July 7 provides the smoking gun. The prices they charged were $1,700 to $8,500 more per MWh than would be expected in a competitive market.

Renewables were framed. A lack of competition, not a lack of capacity, was to blame. A handful of generators deliberately held out for sky-high prices at a time when they had almost 1,000 MW of spare capacity up their sleeves. Neither the maintenance on the interconnector or the low supply of wind power on the day should be blamed for price spikes caused by gas and diesel companies' own actions.

More gas is not the answer. Lifting moratoriums on fracking would do absolutely nothing to prevent the kind of price spikes we've just seen in South Australia.

We need an independent inquiry into the true causes of Australia's high power prices. Regulators have let big energy companies off the hook for too long. It's time they were held to account.

AUSTRALIA'S RETAIL ELECTRICITY MARKETS: WHO IS SERVING WHOM

Summary of a report by Bruce Mountain, CME

The Big Three retailers – AGL, Origin, and EnergyAustralia – are getting away with overcharging their customers because the market is failing to deliver genuine competition. Regulators have been asleep at the wheel, except in the ACT, where the regulated retailer is delivering some of the best value electricity in the country.

South Australian households are getting the worst deal in the National Electricity Market, with the Big Three billing them an average of $650 a year on top of the cost of generating and distributing electricity. This is far more than would be expected in a competitive market, given the much lower prices charged by newer retailers and in the ACT.

Retail charges are out of control

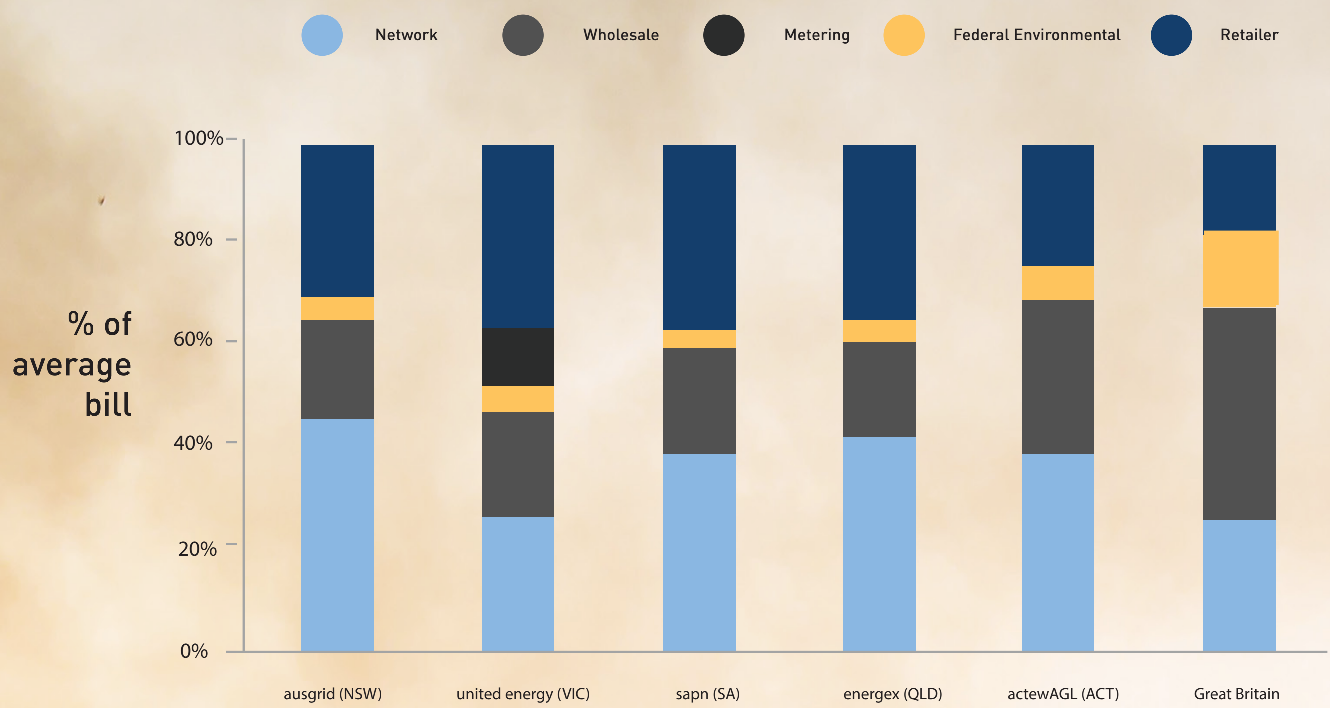
Deregulation has failed to deliver for consumers. For customers of the Big Three, charges for retailing electricity have grown from an insignificant part of a household's bill to 38% of it – far more than the cost of producing the electricity that those households consume.

The Big Three energy retailers are charging their customers two to three times more in deregulated markets like NSW, Victoria, and South Australia than the regulated retailer charges in the ACT.

The proof is in the prices. The Big Three are many times bigger than new entrants in the market and the regulated retailer in the ACT. They should be able to undercut their competitors, but instead they're charging much more.

We're letting the Big Three off the hook. Retail charges have received far more scrutiny in Great Britain, where they are a much smaller percentage of customers' bills.

Fig 1. Percentage breakdown of household electricity bill in select distribution zones
Average of Big Three market offers on 2 August 2016



The Big Three charge South Australian customers much more than their other customers

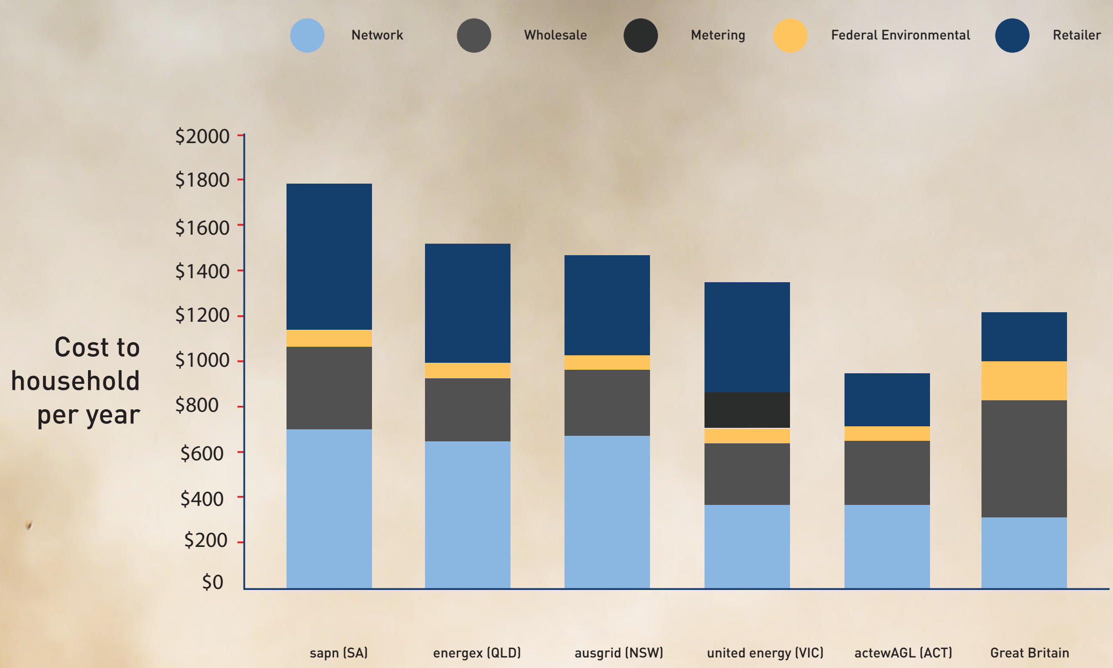
South Australian residents are paying almost twice as much to the retailers that sell electricity than they pay to the companies that actually generate the electricity.

The Big Three are billing South Australian customers $650 a year just to act as a go-between for wholesalers and network companies – more than in any other state.

Residents in South Australia are putting $425 a year more in the pockets of their retailers than residents in the ACT.

Customers with solar are getting a raw deal. The feed-in tariffs that the Big Three pay to households that feed their rooftop solar into the grid appear to be much lower than the average wholesale price of electricity.

Figure 2. Breakdown of household electricity bills in regional markets and Great Britain
Average of Big Three market offers on 2 August 2016



Surveys show that electricity customers have lost trust in the industry. The outcomes we see in retail markets help to explain this. What kind of a market have we got when customers are being charged twice as much for the retailer mark-up than they are for the cost of actually generating electricity?

Rapid technology change is creating opportunity for households to supply their own electricity. If the National Electricity Market was working properly, it would reward companies that give customers what they want and enable innovative suppliers to find new ways to meet their needs. Instead it favours incumbents, and looks a lot more like an oligopoly than a competitive market.

SOUTH AUSTRALIA'S WHOLESALE ELECTRICITY MARKET: WHAT REALLY HAPPENED IN JULY 2016?

Summary of a report by Bruce Mountain, CME

Price-gouging by gas generators in South Australia has often been suspected, but rarely proven. By taking a snapshot of the behaviour of gas companies on July 7, this report finds clear evidence that gas prices in South Australia didn't just rise automatically – they were pushed up by a handful of companies with too much market power.

The five major gas and diesel generators had the capacity to produce a total of 2,966 MW on July 7. The peak demand they were required to meet on that day was only 1,996 MW. **There was more than enough supply to meet demand.**

The major gas and diesel generators had almost 1,000 MW of spare capacity up their sleeves on July 7: **more than the combined capacity of Port Augusta's recently closed Northern and Playford B power stations.**

The fact that there was plenty of spare capacity when wholesale prices spiked shows that the market power of the suppliers was the main culprit, rather than the lack of wind generation or the limits on the amount of power that could be imported from Victoria via the interconnector. **The gas generators could have charged far less, while still making hefty profits. They chose not to.**

The companies with the most spare capacity up their sleeves were, in order, Engie (owner of Hazelwood), AGL and Snowy Hydro.

Table 1: Installed capacity, peak and average output on 7 July 2016 from 1.30pm to 10pm

	Snowy Hydro	Engie	Origin	AGL	Energy Aus
Installed capacity (MW)	178	844	484	1,280	180
Peak output (MW)	99	220	494	1,010	173
Average output (MW)	69	188	469	872	132

A lack of competition was the problem, not a lack of capacity

South Australian gas and diesel companies knew ahead of time that demand would be high and supply would be constrained on July 7. The fact that they held out for astronomically high prices when they still had plenty of spare capacity shows that the market is failing to deliver the competition needed to protect consumers' interests.

In a competitive market, prices would not spike too much higher than the avoidable costs of the most expensive dispatched generator: around $300 per MWh. Instead prices rose above $2,000 per MWh and up to $8,800 per MWh.

Gas generators were therefore charging anywhere from **$1,700 to $8,500 more than would be expected in a competitive market.**

Collectively, generators raked in $46 million over just 8.5 hours on July 7; $39 million more than would be expected in a competitive market.

CONCLUSIONS

Bruce Mountain's research tells us several important things:

Renewables were framed. There are a lot of things wrong with South Australia's electricity market, and renewable energy isn't one of them.

More gas isn't the answer. It's clear from Bruce Mountain's research that a handful of companies with too much market power were responsible for the massive price spikes seen in July. Increasing the supply of gas won't break their market power. Increasing competition from other players will. Supporting the entrance of cleaner suppliers of on-demand energy would not only be better for the planet, it would also be far better for consumers in South Australia and across the country.

Deregulation has not delivered for consumers. Electricity privatisation and deregulation has completely failed to deliver the low prices that citizens were promised.

There is an alternative. The ACT is on track to reach 100% renewable energy by 2020 while delivering the some of the lowest electricity prices in the country, showing that smart governments can make power clean and affordable at the same time.

Implications for the COAG Energy Council

The report's findings demonstrate that neither increasing onshore gas drilling or slowing the expansion of renewable energy will help prevent further wholesale price spikes. A better solution is to break the gas and diesel operators' market power by encouraging additional competition for the supply of on-demand energy from new entrants, such as batteries or concentrating solar thermal with storage.

For more detail on next steps for the COAG Energy Council, see:
http://www.getup.org.au/dirty-power-games

No more excuses

The **Homegrown Power Plan** shows how we can make a fast, fair and affordable transition to 100% renewable electricity. Opponents of renewable energy have used the recent price spikes in South Australia as an argument for slowing the transition down. **Now that we know renewables were framed for high prices, there are no more excuses for delaying the inevitable.**

In fact, the measures outlined in the Homegrown Power Plan are exactly what we need to solve the dirty power games outlined in this report.

For more on the Homegrown Power Plan, see:
https://www.getup.org.au/hpp