



Mr Adam Wilson  
Essential Services Commission of South Australia

By email: [escosa@escosa.sa.gov.au](mailto:escosa@escosa.sa.gov.au)

10 January 2023

Dear Mr Wilson,

### **Retail energy price inquiry – terms of reference**

ENGIE Australia & New Zealand (ENGIE) appreciates the opportunity to respond to the Essential Services Commission of South Australia (“the Commission”) in response to the Retail energy price inquiry (“the inquiry”).

The ENGIE Group is a global energy operator in the businesses of electricity, natural gas, and energy services. In Australia, ENGIE has interests in generation, renewable energy development, and energy services. ENGIE also owns Simply Energy which provides electricity and gas to customer accounts across Victoria, New South Wales, Queensland, Western Australia, and has around 120,000 customer accounts in South Australia.

### **Australian energy markets are highly transparent and closely monitored**

ENGIE observes that energy markets are among the most transparent and closely monitored markets in Australia at both a State and national level. An overview of current and recent monitoring/reporting activities is listed in **Table 1** overleaf, nevertheless it is worth noting:

- Electricity is managed at the wholesale level by the Australian Energy Market Operator (AEMO), who publishes price and volume outcomes as well as individual participant bids for every 5-minute period of the day.
- AEMO also runs facilitated markets for natural gas, including the short-term trading market (STTM) at Adelaide.
- The ASX offers futures contracts for electricity that allow for observation of contract prices (noting that the bilateral over the counter contract market is private).
- The Australian Energy Regulator (AER) regulates standard retail prices for small customers.
- There are regular reports on price trends from the Australian Energy Market Commission (AEMC) and Australian Competition and Consumer Commission (ACCC).

**Table 1: Regular reporting on competition, prices and/or profitability of Australian energy markets**

Report series	Reporting Body	Areas covered	Frequency	Timespan
<a href="#">Inquiry into the National Electricity Market</a>	ACCC	Retail and wholesale electricity prices in the NEM	6 monthly	2018-2025
<a href="#">Gas inquiry 2017-25</a>	ACCC	The supply and pricing of gas across the supply chain	6 monthly	2017-2025
<a href="#">Retail competition review</a>	AEMC	The state of retail competition and outcomes for residential and small business consumers	Annually	2014-2019
<a href="#">Residential electricity price trends</a>	AEMC	Price analysis for current and next three years	Annually	2010- present
<a href="#">Energy retail offers comparison report</a>	ESCOSA	Retail prices for households and small businesses – South Australia only	Annually	2013- present
<a href="#">Wholesale Markets Quarterly report</a>	AER	Gas and electricity wholesale markets	Quarterly	ongoing
<a href="#">Prices above \$5,000/MWh</a>	AER	Review of factors causing price spikes in electricity wholesale market	As required	ongoing
<a href="#">Wholesale market performance report</a>	AER	Electricity wholesale markets review	Every 2 years	2018-present
<a href="#">Weekly reports</a>	AER	Electricity and gas wholesale markets	Weekly	Electricity 2005-2021, Gas ongoing
<a href="#">Default market offer review</a>	AER	Regulated electricity price determination	Annual	2019-present

ENGIE considers that the Commission would do well to draw from this extensive body of analysis in the first instance.

### **Competition and regulation have combined to keep profit margins at a moderate level**

Broadly speaking, the existing analysis has typically concluded that there is workably effective competition in South Australian energy markets (or in the NEM/national gas markets as a whole, depending on the scope of the analysis) and has been for many years. Such concerns as there have been have typically arisen through comparison to a theoretical ideal model of competitive markets that few actual markets can achieve in practice. Where concerns have been identified action has usually been taken to refine the rules or to introduce additional regulation to govern supplier behaviour. These evolutions have generally occurred through public and stakeholder consultations processes, which are supported by ENGIE, and have served the industry and consumers well.

It is well documented for electricity at least that the combination of competition and regulation has delivered low and declining retail margins. Retail margins in South Australia under competition are lower than regulated benchmarks that are applied elsewhere in the NEM. Competition has been credited with contributing materially to these outcomes as well as declining retail costs.


The volatility of wholesale prices makes it harder to draw conclusions about profitability per se for this market. Over the life of the NEM, average wholesale prices have typically been below the long-run costs of a new entrant, which is the established benchmark for reasonable prices. Periods where prices may have exceeded this benchmark have been brief, attributable to identifiable supply-limiting factors such as drought or flooding, and resulted in new entry of generation, leading to subsequent price falls. Gas wholesale prices have been the subject of intense scrutiny and political debate in recent years, and this has culminated in direct price regulation by the federal government with the passing of legislation instituting a price cap. Gas retail margins have typically been considered to be comparable to electricity.

The issues canvassed above are expanded on further in the Appendix to this letter.

Finally, as an active retailer and generator in South Australia, ENGIE is acutely aware of the issues in operating an effective business in the region, which is a relatively small market. ENGIE remains strongly committed to South Australia and sees the State as a key location to realise a range of significant business objectives, as South Australia is at the heart of the energy transition in Australia.

Should you have any queries in relation to this submission please do not hesitate to contact me on, telephone, 0477 299 827.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Jamie Lowe', is positioned below the text 'Yours sincerely,'.

**Jamie Lowe**

Head of Regulation,  
Compliance, and Sustainability

## **Appendix: A brief history of energy markets and regulation in South Australia**

The Hilmer reforms of the 1990s and 2000s played a key role in Australia's recent productivity and economic growth. One of the industries most impacted by these microeconomic reforms was the stationary energy sector.

Electricity had been dominated by state-owned vertically integrated corporations. As a result, the potential of interstate trade in electricity to reduce prices for all customers across the east coast<sup>1</sup> was undervalued. The reform process took different paths in different states, but broadly similar outcomes were achieved regardless of ownership of electricity assets.

A wholesale market was designed and implemented, the industry was vertically separated to facilitate competition at wholesale and retail level, independent regulation of network access and pricing was implemented, as was a retail price cap for small customers. South Australia, like Victoria, privatised the industry in full, delivering valuable funds to state coffers. Interstate trade increased, facilitated by new interconnectors and an effective wholesale market. As the market was explicitly designed from scratch, electricity has never experienced a "free" market; it has always been governed by a mixture of competition and regulation.

The regulatory side of this mix means that electricity is one of the most closely monitored and reported on markets in Australia. Monitoring authorities include the Australian Competition and Consumer Commission (ACCC), the Australian Energy Regulator (AER) and Australian Energy Market Commission (AEMC) as well as state-based regulators such as the Commission.

It is important to note that small customer retail prices are capped, and margins are reported as being low and declining<sup>2</sup>. Wholesale prices are closely monitored by AER and competition (including interstate) drives price outcomes. The challenge of South Australia's electricity market has been the decline of dispatchable generation capacity and regular crowding out of dispatch by "must-run" variable renewables with very low short run marginal costs and an out-of-market revenue stream. This has led to the market operator, AEMO, frequently directing gas-powered generation to run despite being outcompeted in dispatch in order to ensure system security.

The east coast gas industry had a longer history of private ownership and competition, with the risky activity of exploring for and realising gas supply being well suited to private capital. Even so, governments played a valuable role in helping to develop the industry. Despite starting from a different place, gas is now in a similar (albeit not identical) situation to electricity, with facilitated wholesale markets, regulated

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<sup>1</sup> South Australia, is of course, not on the east coast of Australia. However, the term "east coast" is used in the energy sector as a shorthand for the integrated electricity grid that spans South Australia, Victoria, Tasmania, New South Wales and Queensland, and also the interconnected gas infrastructure that covers these states and now extends into the Northern Territory. In both cases this is to distinguish from the physically separate gas and electricity grids in Western Australia, which are also subject to different regulatory arrangements and market dynamics.

<sup>2</sup> Inquiry into the National Electricity Market – November 2022 report, ACCC

networks and competitive retail markets. Here, the primary concern is the small number of upstream producers and the impact of the export market, which is over twice the size of the domestic market. As a result, the ACCC closely monitors upstream outcomes, and the Commonwealth has introduced multiple mechanisms to manage the impact on domestic customers, including quite recently.

### **Retail competition and regulation**

Retail prices for small customers are managed through the twin pillars of regulation and competition. While not a zero-sum game, the level and type of regulation can impact the level of competition, especially since regulation is rarely flexible enough to respond effectively to a dynamic market situation. For example, in 2021/022 in the UK 29 retailers exited the market due to their inability to recover costs under a tightly regulated retail price cap<sup>3</sup>. The costs entailed in transferring failed retailers' customers to another retailer in 2022 were GBP1.8bn<sup>4</sup> (\$3.2bn). To understand the context of where we are today, it's useful to understand the history of retail regulation and competition in the NEM.

For the majority of the period since market liberalisation, retail electricity prices for small customers (households and small businesses) have been under a price cap. Until 2013, the cap for small customers in South Australia was set by the Commission. This provided a safeguard while retail competition developed. In its final decision (applying to tariffs from 1 January 2011) the Commission allowed a regulated profit margin on wholesale plus retail costs of 10 per cent<sup>5</sup> (i.e., it excluded network costs). Given network costs are in the order of 40-50 per cent of a typical household bill, this was consistent with a margin of around 5-5.4 per cent on the total bill, consistent with other jurisdictional regulators at the time.

The government lifted the price cap in 2013. At this time, competition was well established with 12 retailers for customers to choose from<sup>6</sup>, each in turn providing a range of offers. In South Australia, only around 17 per cent of customers remained on a standing offer (i.e., the basic default offer to which the price cap applied). The remainder were on market offers, typically lower than the standing offer, with the best offers being significantly lower than the Commission-approved standing offer.

As price caps were lifted in several other jurisdictions around the same time, the AEMC was tasked with monitoring and reporting on retail competition annually. They published reports from 2014 to 2019. These focussed on indicators of effective competition, with the reasonable inference that if competition was effective, then retailers would be unable to make excess profits. From the 2014 report on, AEMC assessed retail competition in South Australia to be effective. It noted that switching levels were high relative to

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<sup>3</sup> <https://committees.parliament.uk/committee/127/public-accounts-committee/news/174285/pac-ofgem-failures-come-at-considerable-cost-to-energy-billpayers/>

<sup>4</sup> [Open letter: Review of how the costs of supplier failure are recovered](#), Ofgem, July 2022

<sup>5</sup> [Electricity Standing offer price determination](#), ESCOSA, December 2004

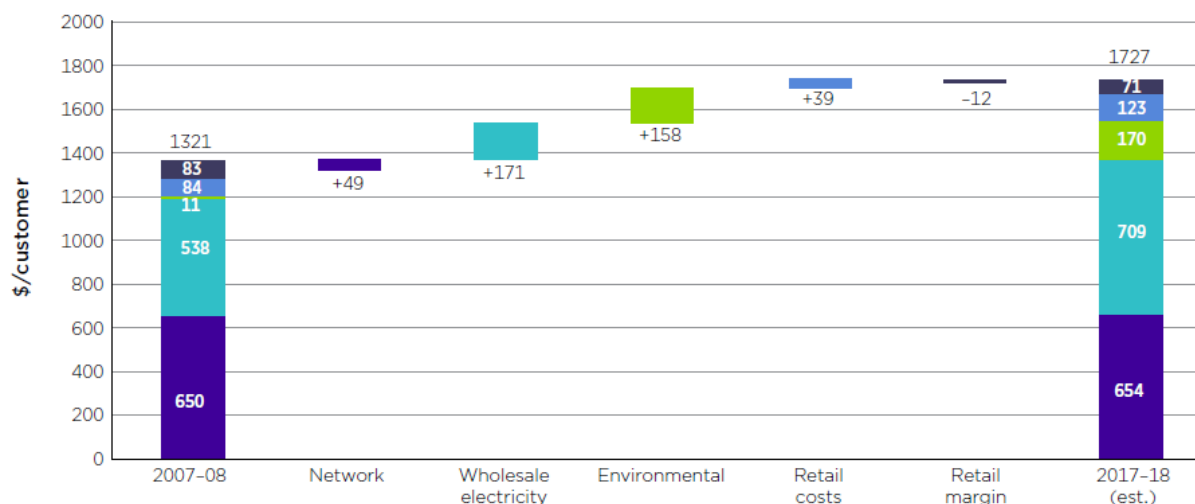
<sup>6</sup> Energy retail offer prices in SA- Ministerial report 2013, ESCOSA, August 2013

other comparable services and to other jurisdictions, that the market was relatively easy to enter and that there were high levels of independent rivalry among retailers<sup>7</sup>.

Unfortunately, underlying electricity costs rose due to a range of factors and consequently average retail prices rose over the next few years. The Commission was tasked in 2016 with checking that retail price rises announced by the three largest electricity retailers were justifiable and concluded that “the retail electricity price increases announced by AGL, Origin Energy and EnergyAustralia can be justified by movements in the wholesale cost of electricity”<sup>8</sup>.

Nonetheless, electricity prices continued to be a politically sensitive area and in 2017 the ACCC was tasked with carrying out an inquiry into the competitiveness of retail electricity markets within the NEM. In carrying out the inquiry, the ACCC undertook a full review of the electricity supply chain and contributors to prices. The ACCC exercised its extensive information gathering powers to present a comprehensive analysis of electricity cost components and how they had changed over a decade in its final report in 2018. In the case of South Australia, the key drivers of household bill increases were the wholesale component and environmental costs (compliance with the large and small-scale renewable energy targets and the cost of South Australia’s premium feed in tariff scheme).

**Figure 1: South Australia retail bill cost stack (\$real 2016-17)**



Source: Retail Electricity Pricing inquiry – final report, ACCC, June 2018

Retail margins had declined slightly over the ten-year period and averaged 4 per cent in 2017-18. This was lower than the regulated profit margins that were allowed at the time of the ACCC report in ACT, Tasmania

<sup>7</sup> See retail Competition Review 2014 – 2019, AEMC, published between 2014

<sup>8</sup> [Advice to the Treasurer on 1 July 2016 South Australian retail electricity price increases](#), ESCOSA, April 2017

and regional Queensland<sup>9</sup>. Each of these jurisdictions allowed a 5.7 per cent retail margin. This was the midpoint of a range of 5.3-6.1 per cent from analysis carried out for IPART in 2013<sup>10</sup>.

Frontier Economics carried out analysis for the Victorian Essential Services Commission to support the determination of the Victorian Default Offer in 2019. In addition to reviewing other regulators' decisions, they estimated a 4.8-6.1 per cent margin would be a reasonable risk-adjusted return using an expected returns approach based on the risks undertaken by retailers<sup>11</sup>.

In short, the ACCC's findings were that the average margin for South Australian retailers on household bills under competition and with no price cap, was lower than regulated margins allowed in other jurisdictions and lower than reasonable profit margins estimated by economic analysis.

The AEMC summarised these findings in their report to the COAG Energy Council in 2018 on the customer and competition impacts of a default offer: "The retail market is workably competitive, with no evidence of excessive retailer margins"<sup>12</sup>. The driver of the ACCC review and its subsequent monitoring reports appears primarily to be concerns about price rises and price dispersion amongst customers.

Nonetheless, price regulation was re-instituted, with responsibility handed to the AER to determine a Default Market Offer (DMO). The DMO is a standard price for each region of the NEM to provide a price cap for retail standing offers and a reference point for retail market offers, which may be significantly lower than the DMO. The AER has moved from a benchmarking approach to a cost stack approach in its four iterations to date of the DMO. Its retail allowance, which includes depreciation and retail margins is based on a transition to 10 per cent of the total bill for household and 15 per cent for small business customers<sup>13</sup>.

While these figures may seem high relative to the benchmarks discussed above, they take into account that the cost stack is more oriented to the largest "tier 1" retailers and smaller retailers will face higher costs than in the AER's cost stack. They also take into account that the DMO is intended to be a reasonable benchmark rather than the lowest price available in the market. The AER is now canvassing a lower percentage retail allowance due to the large rises in wholesale costs, which will automatically lead to higher allowances under the current approach<sup>14</sup>. A higher margin for small business is appropriate "because small business customers pose distinct risks"<sup>15</sup> according to the AER – such as greater bad debt levels.

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<sup>9</sup> Retail Costs and Margin, Frontier Economics, April 2019, p26

<sup>10</sup> Estimation of the regulated profit margin for electricity retailers in New South Wales, SFG, 2013

<sup>11</sup> Retail Costs and Margin, Frontier Economics, April 2019, p29

<sup>12</sup> Final Report - Advice to COAG Energy Council: Customer and Competition Impacts of a Default Offer, AEMC, piii

<sup>13</sup> Default market offer prices 2022-23 – final determination, AER, May 2022

<sup>14</sup> Default market offer - Price determination 2023–24 issues paper, AER, November 2022

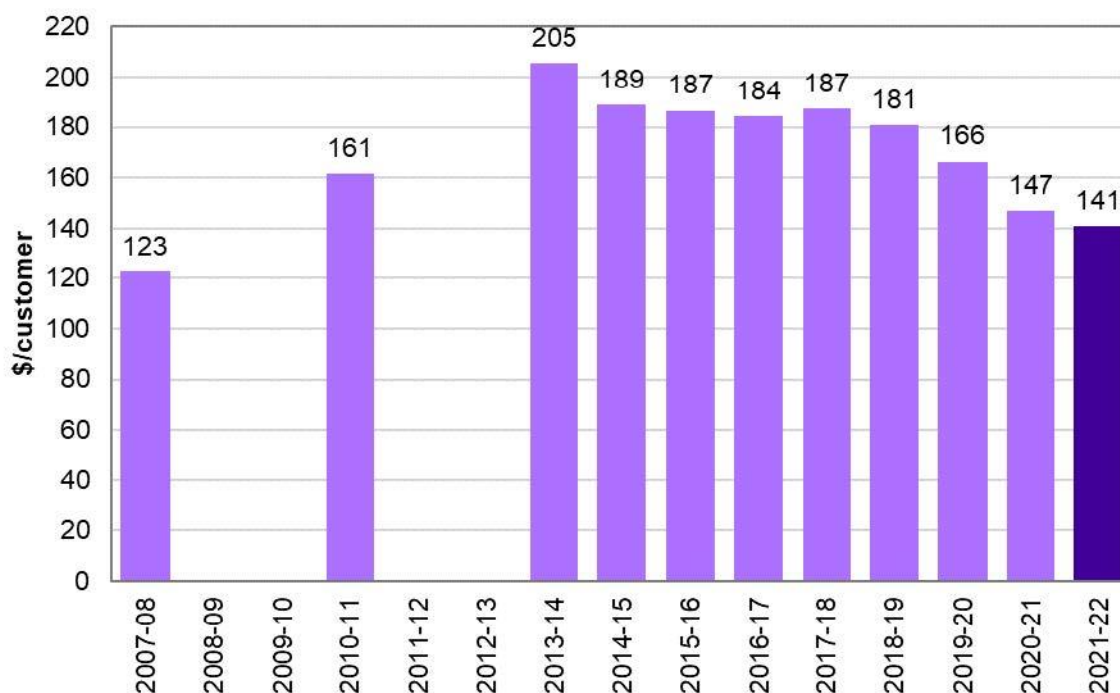
<sup>15</sup> Default market offer prices 2022-23 – final determination, AER, May 2022, p45

The transition reflects its findings that under its previous benchmark approach, there were widely varying apparent retail allowances between regions. South Australia in particular had a retail allowance estimated at only 1 per cent and the AER observed that “low retail allowances in South Australia would present risks to competition”<sup>16</sup>.

The fact that the AER’s retail allowance is not an accurate reflection of actual profit margins is borne out by the ACCC’s latest report (November 2022), which notes that “the average retail margin across the National Electricity Market had dropped to \$35 per residential customer in 2021–22, a decrease of 33% in real terms from the previous financial year. This decline continues the general downward trend in retail margins from their peak in 2016–17”<sup>17</sup>. Retail margins for small business customers “declined even more drastically...decreasing by 50%”<sup>18</sup>.

The ACCC attributes these declining margins to the ongoing growth in competition, as evidenced by the increase in retailer numbers and erosion of the largest retailers’ market share<sup>19</sup>. Retail costs have declined as well as margins.

**Figure 2: NEM average retail costs per residential bill, real \$2021-22**



Source: Inquiry into the National Electricity Market – November 2022 report, ACCC

<sup>16</sup> Ibid

<sup>17</sup> Inquiry into the National Electricity Market – November 2022 report, ACCC, p72

<sup>18</sup> Inquiry into the National Electricity Market – November 2022 report, ACCC, p73

<sup>19</sup> Ibid



Additional indicators of competition are the increase in innovative non-standard retail offerings, including “green” electricity, bespoke solar and demand management options. The competitive landscape for retail has also been influenced by the rise of rooftop PV and more recently batteries which provide an alternative source of electricity to grid supply.

While not a direct indicator of competition or profit levels, complaint levels in the industry are declining. The state ombudsman recently noted that “Complaints about energy and water supply in South Australia have fallen for the second successive year”<sup>20</sup>. Disconnections for non-payment have dwindled to a trickle as customer hardship schemes have taken in more and more customers.

In general, price regulation and specific retail protections are limited to household and small business customers. Larger, commercial and industrial (C&I) customers are considered well able to invest the resources to negotiate their own electricity supply contract with retailers. The ACCC report included a section on C&I retail contracts in which it concluded that retail margins had declined over the ten years from 2007-08 to 2017-18, to an average of 2 per cent<sup>21</sup>. Larger businesses are also using renewable PPAs either struck directly with renewable generators or “sleeved” by a retailer to help manage their electricity costs.

### **Wholesale competition and regulation**

The wholesale National Electricity Market (NEM) has operated as a competitive, energy-only spot market for over twenty years. It pits generators against each other in a continuous process of lowest price dispatch for every five-minute period of the day. While prices are determined separately in each region of the NEM (roughly matching state borders), there is also competition across state borders thanks to interconnectors. Currently South Australia is only interconnected to Victoria, but a new interconnector with NSW is under construction. The NEM-wide character of the market has been established by court ruling. In *AGL v ACCC*, Justice French concluded that there is “one NEM-wide geographic market for the supply of electricity”<sup>22</sup>.

For much of the time since its inception, the NEM has had some of the lowest wholesale electricity prices in the developed world, supporting energy intensive resources and manufacturing businesses. South Australia had relatively less coal plant than other mainland states and no hydro resources and so tended to have slightly higher prices.

The corollary of this is that these higher prices made South Australia an attractive place to develop large scale renewables and the state benefited from gaining an outsized share of the Large-Scale Renewable Energy Target (LRET). This helped to reduce wholesale prices but also made the state’s two coal plants uncompetitive. Their closure, along with the closure of other coal plants in Victoria and NSW within the

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<sup>20</sup> Annual report 2021-22 - media release, EWOSA, December 2022

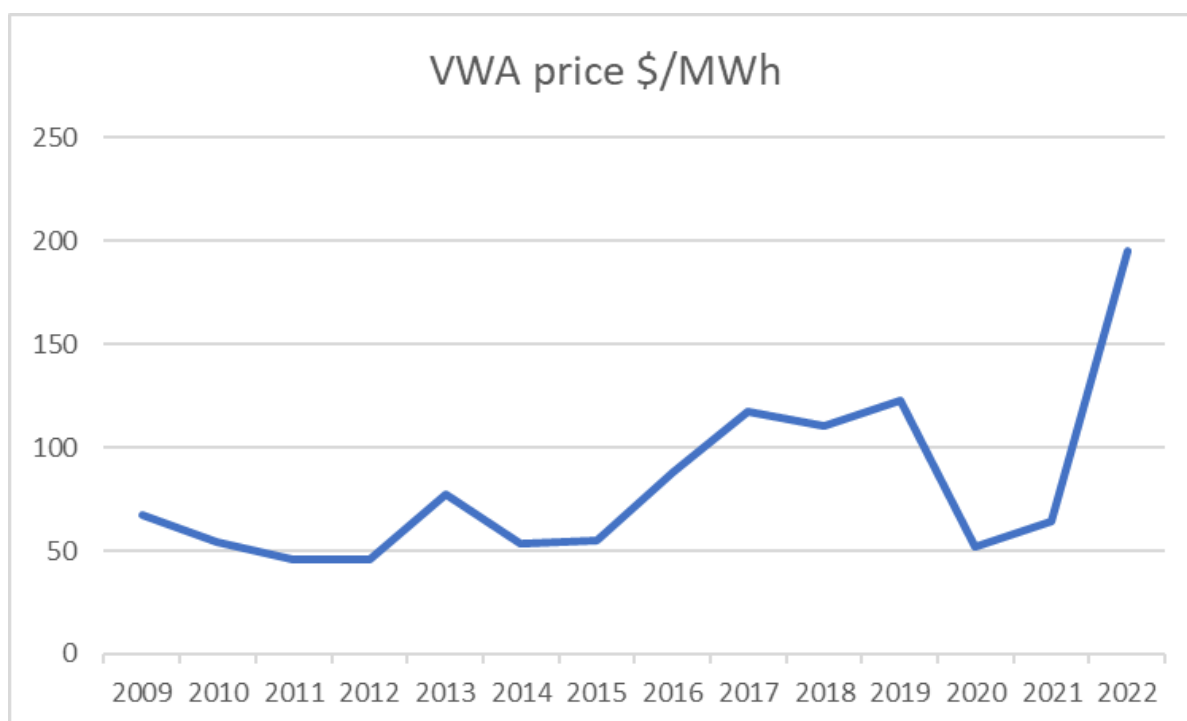
<sup>21</sup> Retail Electricity Pricing inquiry – final report, ACCC, June 2018, p352

<sup>22</sup> *Australian Gas Light Company (ACN 052 167 405) v Australian Competition & Consumer Commission (No. 3) [2003] FCA 1525 (19 December 2003) P387*

space of a couple of years, resulted in a tightening of supply and consequent wholesale price rises through 2017 and 2018. But then, in turn, the continuing influx of renewables exerted downward pressure on prices. South Australia also benefited from new dispatchable plant such as Barker Inlet and big batteries at Hornsdale and Dalrymple.

In 2020 the average wholesale price in South Australia was \$51.52, the lowest since 2012. Of course, this year, prices across the NEM have set new records due to the impact of an unprecedented global energy supply crunch. Nonetheless, the overarching story of the wholesale market in both South Australia and the NEM more broadly is one of regular entry of new generation, reflecting the competitive nature of the market, i.e., there have been no material barriers to entry.

**Figure 3: Annual average wholesale prices in south Australia, nominal \$/MWh**



Source: OpenNEM

Indeed, the take-up of renewables has been so successful in South Australia that it has had the unfortunate side effect of threatening the security of the grid. Wind and solar power are not well suited to providing the technical services such as inertia and system strength that thermal and hydro plant do as a matter of course. So, there have been many times when renewables have outbid the gas plants in the state and kept them from being dispatched economically.

Due to this, AEMO has been forced to direct some gas plant to run out-of-merit in order to maintain a secure system. The price that gas plant receives in this circumstance is limited by regulation and so this is not necessarily a financially attractive state of affairs for gas plant, but it is one of the requirements of

registered generation that it run when called on by AEMO if it is available to do so. The installation of synchronous condensers around the state has reduced the need for these directions.

Concerns about the potential for market power in the wholesale market have resulted in a number of additional rules over time. The potential generator market power in the NEM rule change of 2013 established a trigger for concern as to whether market power may be being exercised<sup>23</sup>. The AEMC noted in its final determination that transient wholesale price spikes can be caused by a range of events, including low levels of variable renewable output, unexpected demand peaks or equipment failure, and that such spikes are a normal part of the energy only market, serving to signal when supply/demand conditions support new entry. Accordingly, the area of concern was *substantial* market power, when prices in the wholesale electricity market are sustained for extended periods of time above the level of long run marginal cost. The AEMC concluded that at the time of the rule change there was no evidence of this, but considered it important to monitor on an ongoing basis and so the final rule handed significant wholesale market monitoring powers to the AER.

The AER monitors over multiple timeframes. For several years it produced a weekly electricity wholesale report (it still does for gas). It reviews all price spikes over \$5,000/MWh and produces a quarterly wholesale report and every two years a wholesale market performance report.

The latest version of this latter report noted that the NEM has been placed under unprecedented stress by a convergence of supply side issues and concluded that these supply side factors were a major driver of generator market offers in 2022, but may not explain all of the shifts in offers. The AER intends to carry out further analysis to test the potential drivers of the generator behaviours they have observed<sup>24</sup>.

In any case, it appears unlikely that South Australia is the primary source of the AER's concerns. The report noted that the "worsening economics for the state's gas generation<sup>25</sup>" was driving accelerated closure of plant, including those owned by the state's largest generation owner, AGL. South Australia was also assessed as providing the least incentive for capacity withholding, a position it has been in for several years (see Figure 4).

Generators are also required to bid and rebid "in good faith" and the AER has extensive powers to monitor and enforce this requirement, which is another safeguard against the exercise of substantial market power.

To the extent that the Commission's inquiry attempts to consider generator profitability directly, it's essential that it does so on a long-run basis rather than short-run and accounts for generation owners' requirements to recover their capital costs (including periodic refurbishment costs) as well as fixed and variable operating costs and making an appropriately risk-adjusted return. Returns benchmarks may be higher than in the past, given the extent of government intervention in the market. If only a short-run

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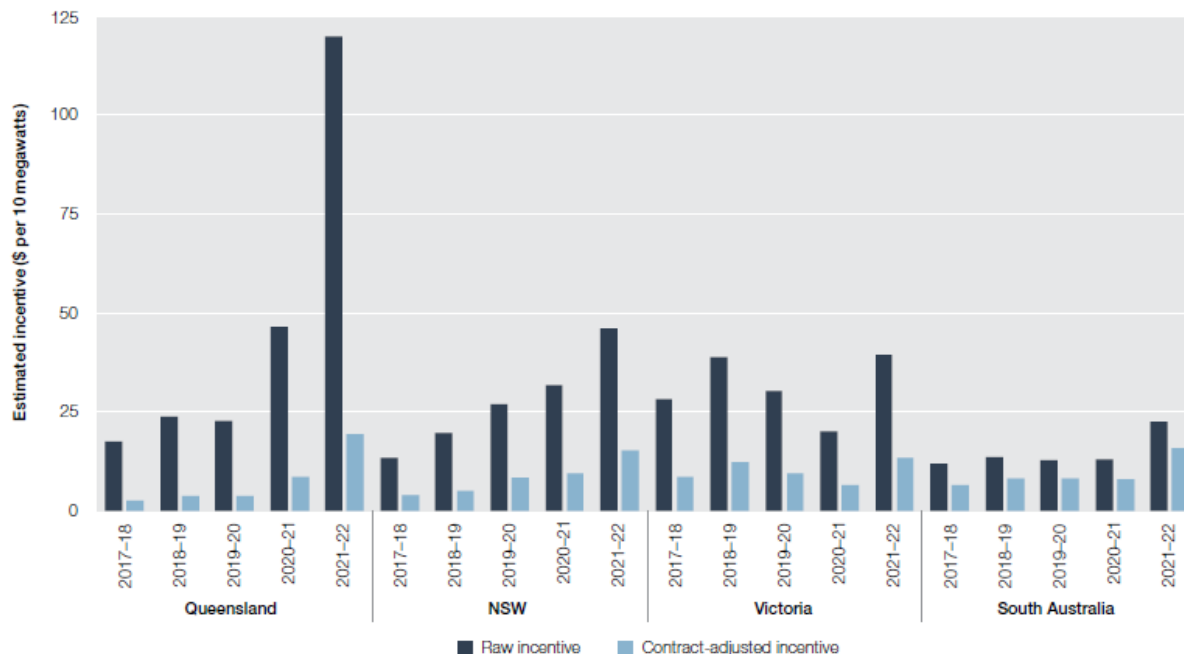
<sup>23</sup> Potential market power in the NEM – final determination, AEMC, April 2013

<sup>24</sup> Wholesale Electricity Market Performance report 2022, AER, December 2022

<sup>25</sup> Wholesale Electricity Market Performance report 2022, AER, December 2022, p65

perspective is taken then all variable renewables such as wind and solar (and including rooftop PV) would appear to be making somewhere close to a 100 per cent margin, given the absence of fuel costs.

**Figure 4: estimated average incentive to withhold across top 5 firms in each region**



Source, Wholesale Electricity Market Performance report 2022, AER, p83

### Contract market

As the NEM is a gross pool with potential for great price volatility, both buyers and sellers of electricity have a strong incentive to enter into hedges to manage this volatility. Hedges take various forms and can be arranged bilaterally (over the counter, or OTC) between parties or in the case of standardised hedge products traded on the ASX. There is limited data in the public domain on the extent of OTC trading, but it is widely accepted that the total volume of hedge trades is much greater than the volume of physical electricity transacted through the spot market. This ensures liquidity in the market.

South Australia has typically had less liquidity than other regions and this has at times led to market bodies expressing concerns about the region. However, there are tools available to hedge South Australian prices using interstate hedges and interregional settlement residues. Interstate hedging has been a feature of the market for at least two decades, as it was widely cited as a commercial risk management tool in the AGL case discussed above. The commissioning of the NSW-SA interconnector will further facilitate this technique. Indeed, given that the business case for the interconnector is predicated on substitution of South Australian gas generation with lower cost NSW coal generation, it's expected to trigger the early closure of some of the remaining dispatchable plant within South Australia, which will further reduce the availability of in-state hedging contracts.

Additionally, the Market Liquidity Obligation (MLO), which was introduced in 2019, supports liquidity by identifying market participants with a 15 per cent market share of dispatchable capacity in each NEM region, and requiring those participants to actively trade contracts during periods in which a forecast reliability gap has been declared. The MLO has been in force in South Australia since January 2021, and ENGIE is one of the obligated participants<sup>26</sup>.

Importantly, even prior to the implementation of the MLO, new retailers have been entering the South Australian market, indicating that there are no material barriers to securing appropriate hedging products.

### **Gas retail**

Gas retailing exhibits similar characteristics to electricity retailing. Gas retail prices have not been directly regulated in South Australia since February 2013, although broader retail conduct rules such as the management of household customer debts, for example, are applicable in gas too. Not all electricity retailers are also gas retailers, reflecting the additional challenges in securing bulk gas supply.

During the period of regulation by the Commission, regulated margins were set at 13 per cent of controllable costs. Due to the distribution component being more than half of a typical household bills, this equates to an overall profit margin of around 5 per cent of the bill. 13 per cent was slightly lower than comparable margins in NSW and Queensland at the time<sup>27</sup>. Subsequent to price deregulation, AEMC reported retailer feedback that margins in South Australia were comparable to those for electricity retail<sup>28</sup>.

The challenges of securing gas supply were rated as “moderate” by the AEMC in its retail competition reviews and it has not stopped the number of retailers steadily increasing, leading to increased independent rivalry.

A recent search on the government comparison website Energy Made Easy<sup>29</sup> based on an Adelaide postcode, yielded 64 plans available from 9 different retailers. This compares to 4-5 retailers in the period up to price deregulation.

### **Gas wholesale**

The gas wholesale market emerged more organically than the NEM. Nonetheless, facilitated markets have been progressively introduced, including a city-gate market at Adelaide (the STTM). This facilitates gas purchase and trading by retailers in Adelaide, which is the largest gas market for small customers by far in South Australia. There are 25 registered participants. Gas can arrive at the STTM either from Moomba or

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<sup>26</sup> See MLO register, available at:

<https://www.aer.gov.au/system/files/MLO%20Register%20-%20November%202022.xlsx>

<sup>27</sup> Gas standing contract price path inquiry 2011 - final inquiry report and final price determination - Part A - statement of reasons, ESCOSA, pA-87

<sup>28</sup> Retail Competition Review 2016, AEMC

<sup>29</sup> <https://www.energymadeeasy.gov.au/>, accessed 30/12/22

from Victorian gas fields, providing some diversity of supply sources (technically it can even be delivered from Queensland if routed along multiple pipelines). The key gas transmission pipelines from these sources are the Moomba Adelaide pipeline system (MAPS) and the SEA gas pipeline. Both are uncovered, meaning that gas buyers need to negotiate access to get their gas to market. Pipeline access has been facilitated in recent years by the introduction of a day ahead auction for uncontracted capacity, which is growing steadily more liquid.

Concerns about the price of and access to gas supply in Eastern Australia have been articulated for many years, following the commissioning of several LNG export facilities in Gladstone. These issues are not canvassed further here, expect to note that they have culminated in recent federal legislation to enable a price cap for gas to be imposed. Currently a temporary price cap of \$12/GJ is in force and facilitated market spot prices converged to that level or below even before the legislation had passed.