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## ACCC blames 'big three' market power for price hikes



ACCC chairman Rod Sims has warned about the market power enjoyed by the big three power companies. **Peter Braig**



by **Andrew Tillett**

The competition watchdog has flagged government measures to clip the market power of the big three energy companies, suggesting their rising shares of the retail and generation markets are fuelling electricity price rises and helping them get around regulation designed to protect consumers.

Australian Competition and Consumer Commission chairman Rod Sims has put [vertically integrated generators and retailers AGL, Origin and Energy Australia](#) under the spotlight for their influence over wholesale prices in the regulator's preliminary findings of an investigation into the electricity market.

"This market dominance has led to non-vertically integrated retailers having limited access to risk management products, and outcomes for consumers and businesses are being driven by pricing practices that are not consistent with vigorous competition," the report said.

As the Turnbull government prepares to unveil a new energy policy as early as Tuesday, Mr Sims said skyrocketing energy prices constitute the biggest economic crisis facing the nation.

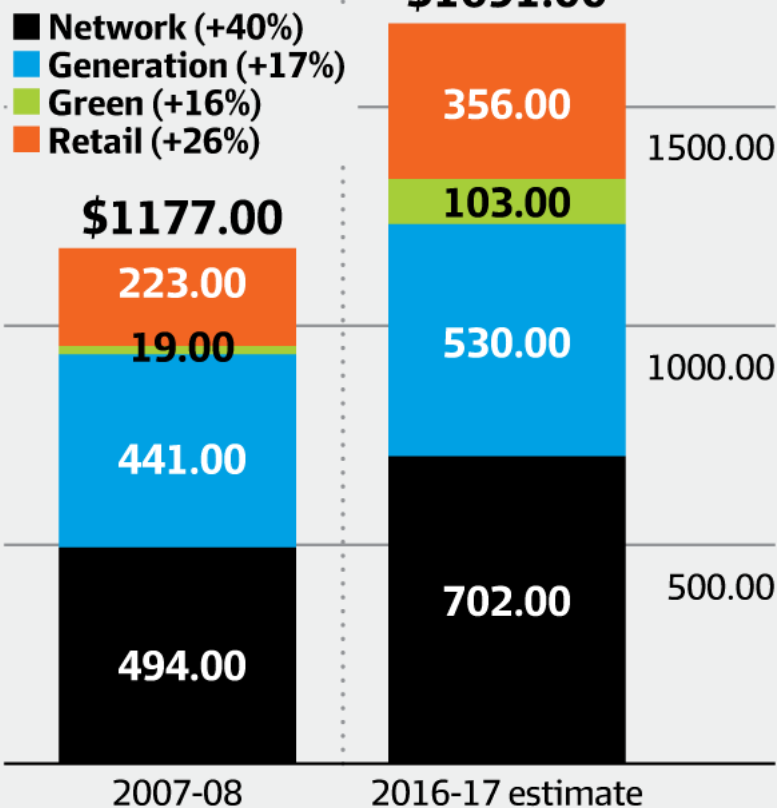
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Proportion of % increase/decrease attributable to each segment

\*Data is for Vic, NSW, SA and South-east Qld.

SOURCE: ACCC

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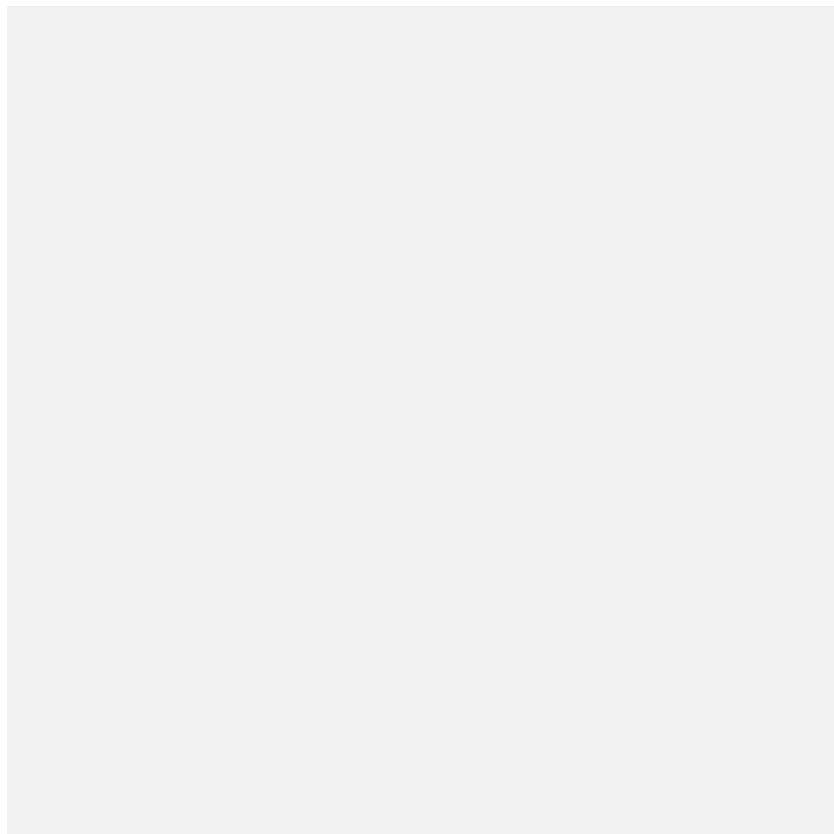
The report blamed a number of reasons behind a 63 per cent surge in electricity prices over the past decade, identifying network costs caused by over-investment in poles and wires as the biggest driver, which Mr Sims said was not widely recognised.

He said the higher network costs could burden consumers for decades.

Green schemes and increased retailer costs were also a factor in higher prices.

But since July 2016, the higher wholesale costs of generating power have become the main cause of rising prices, with the ACCC saying the sector was overly concentrated and getting worse as baseload coal-fired power stations, [such as Hazelwood in Victoria, shut down](#).

With the big three controlling more than 60 per cent of generation capacity in NSW, Victoria and South Australia, the report raised concerns over "strategic conduct" by companies to bid or not to bid to supply the National Electricity Market and manipulate the price. It backed the AEMC's proposed changes to reduce the settlement rule for the spot price from 30 minutes to five minute increments in an attempt to to lower prices.

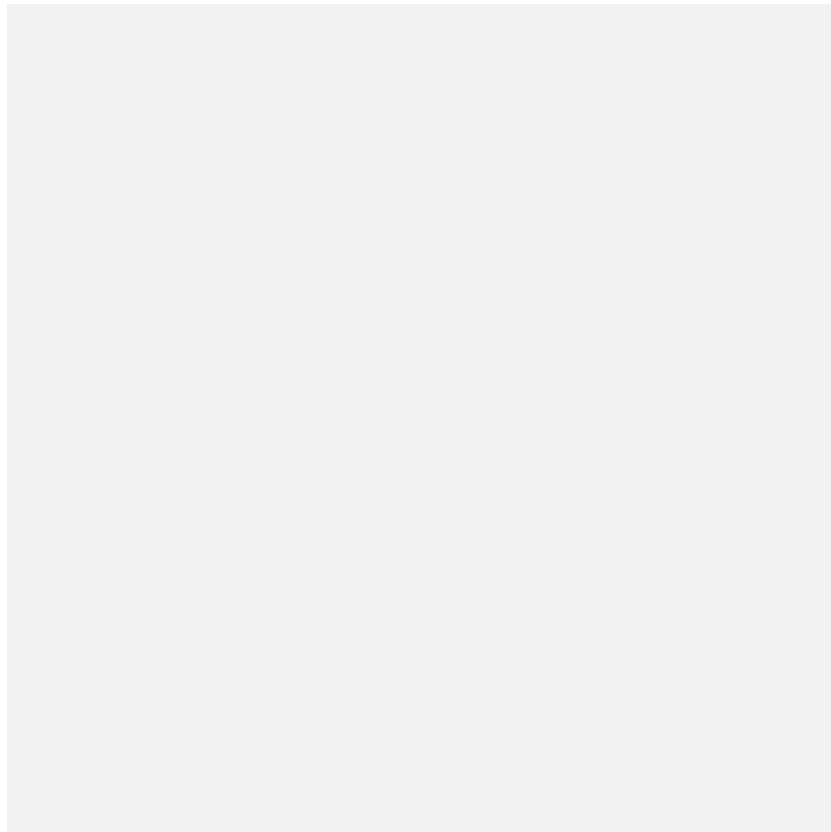


"It is clear that market concentration overall, and the very high market shares of particular generation businesses in some NEM regions, is a risk to wholesale prices," the report said.

"The [NEM is designed to operate with effective competition among generators](#) and any sustained ability for generators to exercise market power is a barrier to effective competition."

The ACCC also highlighted the [dominant position AGL, Origin and Energy Australia enjoyed as retailers](#), where they supply 70 per cent of customers, warning it could hamper competition from rival standalone energy companies. "The combination of high concentration and increased retail costs suggests that competition is not yet as effective as it can be," the report said.

Mr Sims said breaking up the companies was a matter for Parliament but believed encouraging competition would help ease pressure on power prices. This included endorsing Prime Minister Malcolm Turnbull's efforts to get power companies to write to customers on standing offers that cheaper deals were available, as well as remove barriers to make it easier for consumers to switch retailers. "It's very hard to unscramble eggs. I find the issue of breaking them up a huge stick to wield but awfully complicated to do and would take a long time."

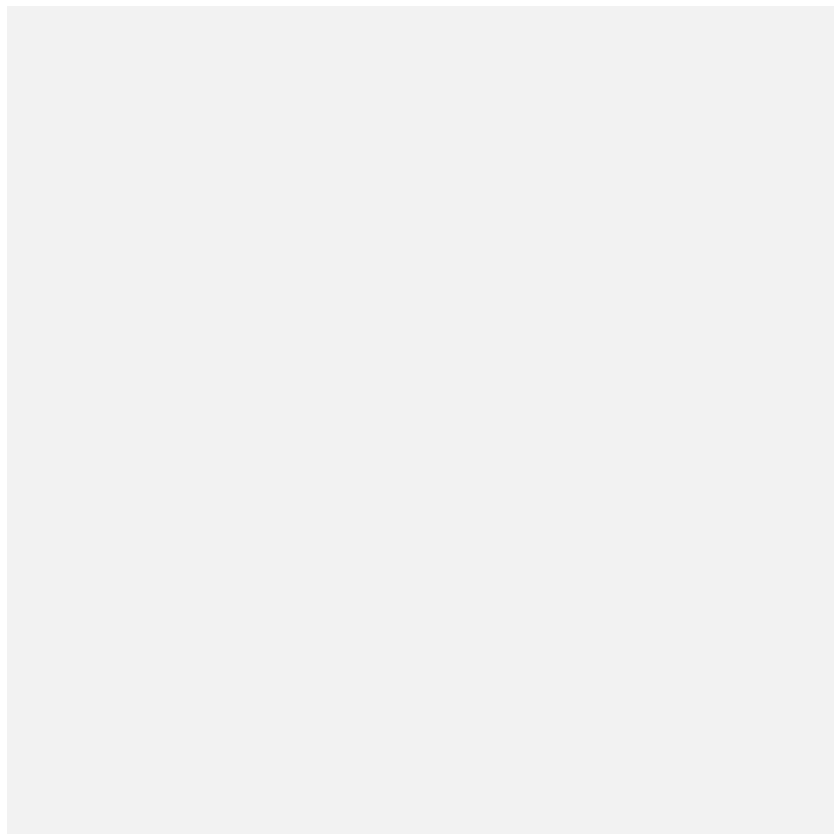


Energy Minister Josh Frydenberg alluded to increasing competition when he addressed [The Australian Financial Review's Energy Summit](#) last week as part of the government's shift away from Chief Scientist Alan Finkel's recommendation for a [Clean Energy Target](#).

Mr Frydenberg singled out the generators' bidding practices as a major concern. "While this type of behaviour may technically be within the NEM rules, it is not in the long-term interests of consumers," he said.

Mr Sims said the price hikes had put business and consumers under "unacceptable pressure".

"I think the combination of high electricity prices and high gas prices is damaging the Australian economy enormously," Mr Sims told The Australian Financial Review.



"It has a big impact on low income households so causing real pain for them, and for consumers more generally it is sucking away their money.

"We have a whole lot of industry and I think a large number of them are at real risk of failure."

Treasurer Scott Morrison said the ACCC's work had been important in the government's efforts to take action on [power prices](#).

"Ensuring we keep the lights on and that the prices Australian families pay for energy are affordable is central to the Turnbull government's approach to energy policy," he said.

"We are working to ensure that Australians are getting the best deal from energy retailers."

Government sources are tight lipped about when the energy policy will be released but Cabinet could consider it on Monday and present it to the Coalition party room Tuesday. "The government is still undertaking extensive work and nothing has been finalised," a spokesman for Mr Frydenberg said.

However, opposition environment spokesman Mark Butler warned Mr Turnbull the government faced a choice between appeasing conservative backbenchers or winning bipartisan support for legislation if the CET was excluded.

Mr Butler said if the government abandoned the CET that would be a deal breaker for Labor. "We are not giving the government a blank cheque," he told the ABC. "It is important that the government respond to Alan Finkel's model. It's a model that was thought through over a number of months by the Chief Scientist and a very eminent panel and endorsed by stakeholders across the community.

"What we are very worried about, what I think people in the community who care deeply about this energy crisis are worried about, is the increasing likelihood that Malcolm Turnbull is walking away from the Clean Energy Target under pressure from Tony Abbott. If that is what he does then he won't get the support of the Labor Party."

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