



Australian Energy Market Commission

SPEECH BY CHAIRMAN JOHN PIERCE AT ENERGY NETWORK ASSOCIATION FORUM *ENERGY TRANSFORMED 2015*

*With or without you: the evolution of Australia's
energy market*

7 May 2015

Check against delivery

I'd like to start by acknowledging the traditional owners of the land on which we meet and pay my respects to their elders, both past and present.

Can I also thank John Bradley, CEO of the Energy Networks Association for inviting me to speak with you today.

Can I also acknowledge:

- Rosemary Sinclair, CEO of newly founded Energy Consumers Australia;
- Michelle Groves, CEO of the Australian Energy Regulator;
- CEOs of industry here today – too many to mention individually which reflects very well on the organisation of this event.

We are now three years through a market-wide energy reform program – Power of Choice – which at its heart is about facilitating the development of a more resilient, responsive market for energy services.

One that can develop and adjust to whatever the future brings, in terms of factors such as: demand patterns and levels; consumer preferences and expectations for value added services, and reliability and quality of supply; changes in technology, such as in metering, load control, electric vehicles, distributed generation and storage; and the relative input prices of capital, labour and fuel sources.

One where price levels, structures and risk allocation from the consumer through to energy source – which are the links that tie the different elements of the service supply chain together, that impact on the long term interests of consumers and influence their behaviour – are consistent with one and other.

One that enables and rewards the sector for making a positive contribution to the economy's long term growth potential via innovation and productivity growth.

It is important to keep in mind that structural adjustments implied by the sort of factors referred to above, far from being exceptional events, are the normal pattern underpinning economic growth. In fact it is an illusion to pursue the long term interest of consumers and at the same time pretend to keep the structure of our system of production and the businesses that make it up, stationary.

Of course the rule changes flowing from the Power of Choice review won't, by themselves, lead to a resilient, responsive energy services market.

All of our market development reviews, advice to the COAG Council for Energy and rule change processes need to be aligned to this strategic intent.

Nor of course is the AEMC's remit the sole influence on how the market evolves and its ability to respond to these drivers of structural adjustment in a manner consistent with the National Electricity Objective.

How you as individual businesses decide to respond, the strategies you pursue and priorities you set are obviously a critical determining factor. The title you have given to today's discussions reveals you are well aware of this.

On a broader level you have probably heard me say before that the outcomes experienced by consumers – the ability of the market to meet this objective – is a function of three variables.

At this point I should apologise for my somewhat mathematical bent – I recently pointed out to a learner driver how overtaking involved using the calculus he was learning at school. I'm not sure that he found that particularly helpful.

But in this case the three variables impacting on consumers are:

1. what is happening in the competitive generation and retail sectors,
2. what is happening in the regulated network sector; and
3. the means by which – the tools and instruments – that governments choose to intervene in the market in order to achieve their quite legitimate policy objectives in areas such as vulnerable consumers, emission levels and land use planning, which are usually developed outside of energy portfolios.

Government objectives in these areas are of course a given, however what we can and should do is point out how to design policy instruments that achieve these objectives that are also compatible with how the energy market operates.

But back to Power of Choice - these are important reforms.

And much of the heavy lifting involved in the Power of Choice reform program addresses issues with regulation of electricity networks – how distribution network prices are structured and the competitive framework for metering and metering services for example.

The latter being an example of how technology can open up opportunities for consumers, rather than regulators, to decide for themselves what services are of value to them, and in the process re-define what parts of the supply chain sit within the competitive as against the regulated sectors.

So I want to thank you all – including the Energy Networks Association – for helping us lay the foundations for lasting energy market reform for the road ahead.

In any challenging reform program it is worth reminding ourselves from time to time why we started down this path in the first place.

It is true that efficient markets are characterised by effective participation of both the supply and demand sides of the equation.

And clearly that is something the Commission, industry, consumer groups and governments have an interest in encouraging.

But the Power of Choice report was really a response to changes in the key drivers of how the sector develops that was started once the decision was made to establish the NEM as part of the overall Competition Policy reform package.

When I, and I suspect many of you, started working in this sector the main driver was the generation sector. That's where all the action was.

With the establishment of the NEM, and retail competition, that focus shifted to the retail sector and now – with or without us – the key driver of development is the consumer.

So how do the 'bits' of the Power of Choice reform fit together?

Connected, well thought through reform, often gets unpacked during implementation into its constituent parts and scattered to the point where you need an Allen key and Ikea instructions to get it back together.

The Power of Choice reforms are designed to fit together.

They will deliver better outcomes for consumers and set us up for long-term market efficiency and stability, but only if we stay the course on the key aspects of the reform package.

We can't pick and choose the bits we like and bits we don't without compromising the move to a consumer driven energy market, where consumer choice is what drives the way the market evolves.

The first piece of the puzzle is getting effective price signals to the consumer. That's where the distribution network pricing rule change comes in – which will come into effect from 1 July 2017.

From that date, network prices will better reflect the cost of providing network services to individual consumers.

Even if the total costs and revenues of network services are at efficient levels, retailers and consumers cannot be expected to make efficient choices unless these revenues are recovered via price structures that better reflect the cost consequences for networks of their individual decisions.

This will allow consumers to make more informed choices – to see and access value in those choices – and that gives them a reason to participate in the market.

All energy ministers indicated their full support for the network pricing reforms in the most recent COAG Energy Council meeting in December last year:

“The Council supports tariff reform as an essential next step in this process as a means of providing better price signals to consumers and notes that new Distribution Network Pricing Arrangements will enable distribution businesses to set prices that reflect the efficient costs of providing network services to each consumer. This will allow consumers to make informed decisions about their electricity usage and help to deliver better signals for efficient investment in distribution network capacity.”

- COAG Energy Council, December Communique

But it's no good consumers having a reason to participate, if you don't have the means to participate.

And to participate consumers need information and they need tools. Clearly competition in retail markets plays an important role here, as does government in supporting information campaigns.

So the second piece of the puzzle is improved consumer access to information about their energy consumption via a rule change that went through in November.

It allowed customers to obtain their electricity consumption data from their distributor as well as their retailer.

It allows other parties authorised by customers to request access to electricity consumption data from retailers and distributors.

And it provides minimum requirements for the format, time frames and costs involved when a customer requests their consumption data.

As well as information, consumers need tools, and that's where the third piece of the puzzle - metering reform – is important.

And the metering work is really a 'set-of-reforms' – rule changes – which provide the necessary conditions for a competitive energy services market to develop.

These include a rule change to promote competition in metering and related services; an open access and common communication standards framework for smart meters; and arrangements to allow multiple trading relationships at the consumer's connection point.

The competition in metering rule change really is the "key" to unlocking the full value and benefit of consumer participation in energy markets.

Like a mobile phone or a pay TV box, advanced meters are currently an important piece of the physical infrastructure that enables consumers to use a service they value.

It is a tool that can help consumers monitor, manage and adjust their electricity consumption and, importantly, capture the value of doing so, if they so choose. Opening up the metering space to competition will allow consumers to benefit from a wider range of energy services and demand-side products.

Tools to respond to time-of-use pricing, off-peak charging of electric vehicles, faster retailer switching and more efficient notification of system faults to network operators.

Our draft determination, as most of you will be aware, is out there for public consultation and we had a good discussion at the public forum here in Sydney last week.

The draft determination makes it clear we intend a market led approach, meaning investment in metering services will be driven by consumers choosing products and services they value at a price they are willing to pay.

Again, this is a reform which has been endorsed by energy ministers at the December COAG Energy Council meeting:

"The Council supports the push for competitive market-led rollouts of smart meters and the delivery of tangible benefits to consumers from new metering technology."

- COAG Energy Council, December Communique

The metering reforms mean investment, innovation and technological development will be responding to consumer preferences, rather than a regulator's preferences.

Meters, of course, are not the only tool consumers need for competition to thrive.

Consumers also need tools to help them shop around for the best deal. Just as importantly, they need to know about the tools available to them.

And while there are useful comparison sites available to consumers, our research, including that conducted for our annual Retail Competition Review, clearly shows that most consumers don't know about them.

Our last survey found that only 1 per cent of consumers could identify their jurisdiction's independent comparison website unprompted. That went up to 29 per cent in Victoria when prompted (lower in other states) but that is still a very low number.

That's why we've recommended a range of initiatives to increase consumer awareness of the choices available to them.

These included improvements to comparison websites and tools, targeted information campaigns to consumers with difficulty accessing online information such as those who do not speak English, and a mass market media campaign.

Giving consumers the tools, information and clear price signals, means consumer choice is what will drive market development for energy and energy related services.

This is a direction consumers were already headed in – with or without us – propelled by technological change.

The different parts of the Power of Choice reform program will work together to support that change.

But we must stay the course on all aspects of the reform program, because they are very much integrated reforms which rely on each other to succeed.

Metering is not the only technological issue the AEMC is looking at which has the potential to reshape the energy market landscape.

In collaboration with the CSIRO, we've also started a new project looking at the regulatory implications of storage technology.

Advances in technology and decreasing costs mean storage technologies have the potential to affect every part of the electricity supply chain.

Distributed storage systems may offer significant benefits to consumers with intermittent energy sources, such as the 1.4 million Australian households with rooftop solar PV, by allowing them to better match their generation to their usage needs.

Large-scale storage systems may be used by network businesses to reduce congestion, smooth network peaks, mitigate outages or provide network support in remote areas – all of which potentially reduce the need for spending on network infrastructure, thereby reducing the cost of network services for consumers.

Storage systems connected to power stations could allow generators to better manage variations in wholesale prices between times of high and low demand, or better integrate variable generation resources like large-scale wind.

So we are looking at how different storage technologies may be utilised across the electricity supply chain; the implications for electricity consumption; and how the legislative and regulatory framework may need to respond.

The project is a little new, so we haven't outlined the details of stakeholder engagement on this project, but that will happen in the coming months and I'm sure many of you will be interested in that.

Now, some would ask the question: does this mean you're expecting storage technology to mature in the short term?

We don't take a view on that. For us, the work we're doing: looking at metering technologies, storage technologies and the regulatory implications of technology and market change in general is about understanding what is on the horizon so that the regulatory framework is flexible and resilient enough to respond to change, whatever comes.

We don't know what types of technology are going to emerge in the future.

What we do know is that consumers will dictate that, by doing what consumers do in a workably competitive market.

The consumer driven transformation of energy markets will move ahead with us or without us.

Government, regulators and retailers, generators and networks alike have to make choices about whether they'll embrace the evolution of the market.

Our view is that it is better to be ahead of change than behind it – regulators have found out the hard way what it means to be unprepared.

It's now up to networks to respond to this evolution and to the new regulatory arrangements. The way you have structured your discussions today is evidence that has already happened.

Again, I want to thank you all – including the ENA – for coming with us on this path.

It is not an easy journey – and I dare say there'll continue to be a fruitful and robust exchange of ideas.

But no structural change happens easily; and good, lasting reform only happens when there is that free and frank exchange of ideas via robust consultation and engagement.

I look forward to continuing that engagement with all of you.

And thank you again to the Energy Networks Association for inviting me to speak today.

ENDS

John Pierce

Chairman

Australian Energy Market Commission

Check against delivery