



12 July 2013

John Pierce

AEMC Chairman, Australian Energy Market Commission

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Dear Mr Pierce

RE: Advice on a Best Practice Retail Price Regulation Methodology

Thank you for the opportunity to provide comment on the Issues Paper covering Best Practice Price Regulation Methodology.

The Conservation Council of South Australia very much supports the AEMC's proposed objective for retail price regulation is set out in Box 1.as follows:

Having regard to the long-term interests of customers, retail price regulation should determine electricity prices for small customers, which:

- reflect the efficient costs of providing retail electricity services; and
- facilitate the development of competition in retail electricity markets, where competition may be feasible.

In this submission, we address that the long term interests of customers includes sustainability matters. Competition in retail electricity markets must include reforms to establish fair alternative choices between renewable energy as GreenPower and standard grid electricity, rather than GreenPower simply remaining as an uncompetitive premium for a product that includes no attributes.

This submission is therefore focussed on the component described as "Environmental Scheme Costs". These Environmental scheme costs are actually designed to contribute to avoiding if at all possible, the worst impacts of anthropogenic climate change which is actually an economic and social risk as well as an environmental risk.

Carbon Pricing and Retail Pricing Regulation Methodology

The matter of allocating carbon pass through costs to consumers and the transparency of doing so has not yet been properly addressed in regulation methodology. State based regulation covering greenhouse gas emissions disclosure has now ceased with the National Electricity Customer Framework yet this framework does not include standards or requirements for disclosing greenhouse gas emissions associated with electricity bills.

Customers now receive vague and meaningless disclosure of greenhouse gas emissions from electricity companies. It is very likely that the emissions shown on bills may not even relate to the true carbon emissions exposure of a generator-retailer.

The NGER method for the allocation of scope 2 emissions to electricity consumers operates in parallel with the NGA Factors Accounts - emissions factors as a the basis of allocating scope 2 and scope 3 emissions to end users of electricity across Australia, yet retailers may be using a National Electricity Market (NEM) factor as a basis for carbon pass through costs and neither of these factors equate to the true carbon liability of the generator-retailers.

Generator-retailers with large historic hydro- electric and wind portfolios are marketing products of low carbon exposure, free of carbon costs, whilst GreenPower customers are charged carbon pass through costs. Sometimes retailers are providing a GreenPower rebate out of pure embarrassment at charging these carbon pass through costs.

Retailers and particularly 'gentailers' incur carbon liabilities based on the portfolio of their energy sources and pass through costs that they cannot avoid. A retailer selling electricity from a portfolio of wind and hydro dominated supplies would incur a very low carbon debt and would therefore not have justification for using a high rate or an NGA state emissions factor as this would recover an inflated carbon pass through cost.

In contrast, a retailer selling electricity from a greenhouse intensive dominated portfolio, say from coal fired power stations, is not be able to recover their carbon pass through costs using an NGA emissions factor. The Energy Market emissions accounting still seems seem to be operating in parallel with current NGER and NGA emission factors.

The system is rife with confusion, contradictions and is impossible for customers to make informed decisions for electricity that comes from a company with a lower greenhouse footprint.

We appreciate that there are some retailers that do not generate power and that the system is complicated by the NEM that is not designed to support differentiation needed for a low carbon economy. However, generator-retailers should only charge for their carbon liabilities and where retailers sell electricity that they have not produced, a residual grid mix of greenhouse intensity can be used as a basis for determining emissions and carbon pass through costs.

Recommendation 1:

With carbon pricing, the physical accounting approach is simply not appropriate and should be replaced with a contract based accounting approach to be consistent with the greenhouse gas emissions that retailers will attribute to their electricity customers on a contract basis, and the greenhouse pass through costs that end users will be charged.

Consumers expect but do not receive full transparency of their emissions and carbon costs on their electricity bills. As the method of allocating emissions to electricity customers is not properly described in any regulatory advice.

Recommendation 2

*The NGER Determination should be amended to describe how carbon allocation **on a contractual basis** is determined for end users. This should now become the core method for allocating scope 2 and 3 emissions to end users and should be fully integrated with the National Electricity Market rules. The State based emissions factors should only be used for statewide strategic purposes) such as state wide comparisons and to inform state wide or national policy (not for individual electricity bills.*

Recommendation 3

The Advice should include Principles of Carbon Pass through to be adopted such as:

1. The carbon accounting system for end users should align with the carbon costs charged to end users.
2. Within individual retailers operating in a state, the carbon price rate should be equal across all of its customers (i.e. households should not pay a greater carbon pass through rate compared with large industrial customers)
3. There should be no double allocation of carbon pass through liabilities
4. Retailers should not recover carbon costs that are greater than their carbon liabilities.
5. Transparency - full disclosure of carbon pass should be provided on electricity bills showing methods, rates and costs.

GreenPower and Best Practice Price Regulation Methodology

GreenPower paying electricity customers are treated appallingly under Australia's electricity market and accounting frameworks including where:

- A 100% GreenPower paying electricity customer pays for the minimum renewable power percentage under the Renewable Energy Target as well as their 100%
- Household GreenPower customers are not offered 100% renewable packages based on the RPP plus the difference to make up 100%

- GreenPower customers pay extra for the state based feed in tariffs
- There is no GreenPower focussed customer representative group and limited meaningful engagement with the National GreenPower Steering Group
- The Power of Choice Review scope and subsequent implementation does not support renewable energy choice for customers.

If the objective of this Advice is to facilitate the development of competition in retail electricity markets, where competition may be feasible, then there is no better place to start than by reforming GreenPower to enable competition between renewable energy and standard grid electricity in retail markets.

It is a staggering failure that in 2013 under a carbon priced economy that the AEMC has still not considered that renewable energy should play an important role in competitive retail markets. Consumer decisions are not simply based on least cost. Consumers seek a level of reliability, some may seek time of day pricing, and many also seek a genuine contractual choice between renewable energy and the residual grid mix (that includes coal, gas and unconventional gas).

Recommendation 4

GreenPower needs to be acknowledged as a genuine component in electricity markets instead of as a novelty. This recognition should be followed by a reform of NGER accounting to legally allocate the attributes of reduced emissions and renewable energy use to GreenPower customers and to protect GreenPower electricity customers against unfair carbon costs.

100% Renewable energy use should also be defined as the mandatory Renewable power percentage plus the difference to make up 100%. This would protect GreenPower customers from paying more than 100% for renewable energy.

GreenPower consumers have typically paid prices that are much higher than the market price of Renewable Energy Certificates, on top of their electricity price. The AEMC should ensure that GreenPower prices are fair and not inflated to be vastly higher than the yearly average price of Renewable Energy Certificates.

Recommendation 5

The advice should also cover fairness in the pricing of GreenPower which has largely escaped scrutiny as retail GreenPower has not been included as part of the electricity market.

Whilst reforms are needed, previous efforts have not been successful, in part because jurisdictions often dealt with just one part of the problem. Accounting is separate to the RET which is separate to the GreenPower Program and to date there has been no jurisdiction to take responsibility for a system wide and market wide approach to ensure that low emissions electricity is incentivised and allocated to low emissions customers. As a consequence, GreenPower markets are stalling, and Australia is failing to utilise a key driver for more renewable energy investment. The

Recommendation 6

*The AEMC however should take on the task of an integrated **Review of the Role and Potential of GreenPower Customers in an Electricity Market with reforms** as outlined.*

Other aspects of fairness in relation to environmental scheme costs

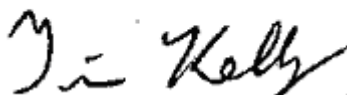
Surely when an electricity customer has already committed to paying for 100% renewable energy that this should be enough and they should be spared meeting the costs of additional feed in tariffs, the small scale renewable energy target and energy efficiency schemes.

Recommendation 7

The AEMC should consider the fairness of 100% GreenPower customers being charged for other jurisdictional environmental schemes and the small scale RET.

With the reforms outlined in the recommendations above, customers would be informed of the greenhouse intensity of their electricity suppliers and GreenPower would become incentivised to be a competitive real product rather than simply being a premium above the cost of electricity for a concept with no legal attributes. The historic problem of the double counting of GreenPower (of reduced emissions and renewable energy use) would be eliminated and the GreenPower framework will then be able to reach its full potential in competitive retail electricity markets.

Kind regards

A handwritten signature in black ink that reads "Tim Kelly". The signature is written in a cursive, slightly slanted style.

Tim Kelly

Chief Executive

Conservation Council of South Australia