

Synopsis of the second meeting – Power of Choice Review

The second meeting of the Stakeholder Reference Group was held on 24 October 2011. The purpose of the meeting was to seek SRG feedback on issues and confirmation of set of issues for the review based on outcomes from stakeholder submissions and other consultations.

Recap assessment approach/methodology

The AEMC provided a recap of the proposed assessment framework for the review. Members noted the following:

- The proposed framework needs to consider the role of other players (such as aggregators) in the market.
- Efficiency is not just assessing the costs compared to the benefits, but the highest net benefit. Need to examine the market impacts and the benefits to consumers.
- Consideration should be given to the view that consumers may not want to have to choose, they may simply prefer little or no choice (get and forget).

It was considered that these are relevant issues that should be taken into account in preparing for the next stage of the review and Directions paper.

Key areas and issues emerging for the review

An overview was provided to the SRG on the key areas and issues emerging for the review. It was noted that these could be split into two key groups, that is:

1. Confirmation of market conditions and issues for consumer uptake of efficient DSP, including:

- consumer engagement and information
- pricing structures and signals
- infrastructure and technology

2. Issues across supply chain to capture value of efficient DSP, including:

- supply chain interactions
- wholesale market
- networks (including distributed generation)
- retailers

Members noted the following key issues based on presentation of issues (see AEMC presentation):

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Confirmation of market conditions and issues for consumer uptake of efficient DSP

Consumer engagement and information

- The review should consider: what is the end action, who's doing it, and who makes the decision for particular activity?
- What is the best way to educate consumers (and how to educate the sub-groups within the consumer groups).

Price signals

- There may be a difficulty in achieving true price signals to consumers – is it the optimal approach (i.e. higher prices may not necessarily be needed, 'price signals' could include "rebates" to consumers).
- The value of reliability to consumers is important (i.e. consumers that can live with keeping air con at a lower level can hold real value).
- The value consumers place on DSP is important in context of price structures – willingness to pay.

Technology

- Compliance control or standards may be an appropriate solution for encouraging consumer behaviour. However, certainty and consistency in the market is important to consumers.
- The cost of capital is an issue. However this is different for residential consumers as oppose to commercial/industrial consumers.

- Consumer choices of technology can lead to strong direction around what technology is chosen. Consumers are probably rational in wanting short pay-back periods, as technology can become obsolete/replaced. It is therefore worth considering how important consumer investment is (it is a means for investment in the market that would not otherwise occur, for example, solar panels).

Issues across supply chain to capture value of efficient DSP

Supply chain interactions (split incentives issue)

- Some general support of the single actor model solution to capture value of DSP. However, not necessarily as a regulatory option.
- Also recognition that this concept needs to be developed further. Members noted that the value of DSP to either retailers or network business may differ during the day.

Wholesale market

- Some members were concerned that detailed consideration of some form of capacity market solution for DSP is not within the scope of the review. The Chair of the SRG reiterated (as per first meeting of the SRG) that detailed consideration of the need for a capacity market was out of the scope of the review.
- It was considered that third parties should be able to operate within the market and this issue should be considered further.

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Networks

- General recognition of need to look at the incentives for DSP under current economic framework for networks.
- The role of network businesses in providing new DSP related services to consumers needs to be considered.

Retailers

- Members agreed that retailers have an important role in providing information to consumers and the commercial incentives facing retailers with respect to DSP needs to be considered.

Evidence based material for the Review

- Members were advised that some consultants had been engaged as part of the review to provide evidence across a number of areas for the review. For this meeting, PwC and Futura Consulting provided updates on their work to date. Presentations can be found at the review webpage (<http://www.aemc.gov.au/Market-Reviews/Open/Stage-3-Demand-Side-Participation-Review-Facilitating-consumer-choices-and-energy-efficiency.html>).

Investigation of efficient operation of price signals in the Electricity Market - PwC

Members noted the following:

- Due consideration should be given that costs are not necessarily driven by customer numbers; and that transaction costs should not be ignored.

- Network charges – Some members commented that if LRM is shown to be lower than average cost, then the average price would decline. (PwC responded that LRM is not necessarily the cost of doing the augmentation right now but the incremental increase in network capacity given future demand forecasts)
- There is a generalisation about customer behaviours. An IBM survey noted that ¼ of customers do not care about their energy consumption. Another ¼ don't have the time to deal with it. A further ¼ do care but cannot afford new appliances to change their consumption. Only 25% are willing and able to engage in the energy market. How do we deal with each of these groups of people? We have to deal with each group differently.
- It is difficult for consumers to do a cost benefit analysis on buying an energy efficient appliance. Research has found that those on low incomes are often very motivated to reduce their consumption. The limit has not been what choice they need to make, the limit is their economic situation.

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DSP Opportunities in the electricity market – Futura Consulting

Members noted the following:

- One member noted that there is a need to document what consumers expect out of the pilot and trial work (a trial on cost-reflective pricing in North America was successful for 4 years. Load control was then implemented and 75% of customers dropped out).
- There was a general appreciation for the work of collating all the pilots and trial work to date. Members considered the information provided to be extremely relevant.

Roundtables

A number of roundtables with the SRG were held to canvas a number of specific questions emerging as issues for the review:

1. What would be a best practice approach for improving pricing signals and structures to trigger responses by consumers? What factors should be considered in achieving it?
2. What specific actions could be taken to improve existing energy consumption and cost information to consumers or third parties? Are there changes that could be made to the Rules/NECF to support better access for consumers to their consumption data.
3. Under what commercial arrangements do retailers have an incentive to take up efficient DSP? To what extent do such arrangements currently exist now?
4. How should DNSPs take DSP into account when considering planning/investments, including to meet reliability obligations.
5. Should there be a single actor for DSP in the supply chain? What factors should be taken into account in considering such a model.

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Q1: Improving pricing signals and structures

Key points made:

- Overseas for examples of pricing should be considered.
- Measurement is an issue – technology, aligned settlement arrangements.
- Ability to get strong exposure to ‘true costs of service’ may be difficult.
- Currently efficient operation of price signals restricted by retail price regulation.
- Problems with ‘optional’ Time of Use – customers who opt out will have price rises over time.
- Support of customer protection programs/frameworks in place to protect vulnerable consumers.
- Rebates are a possibility. It is difficult to establish a baseline however.

Q.2 Improving existing energy consumption and cost information

- Design should focus on the user. Consumers don’t understand the different components of their bill. Improvements should be made to existing energy consumption and cost information. Language that is easy for consumers to understand should be used. The market needs better co-ordination re energy info.
- Access to information is important. Commercial industries should be time efficient. Content and delivery should focus on who the end user will be, rather than just providing them with leaflets, for example. Colour coding, for instance could be used so that consumers can identify easily what kind of category they fall into when dealing with retailers. There is a need for real-world terminology and less jargon.
- Sharing intelligence across market participants is important. There is a lot of useful information that is not utilised as it is available on the networks websites.
- Comparative billing (reform underway) and more frequent billing are options

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Q.3 Incentives for retailers to take up efficient DSP

- DSP can be a risk management tool for retailers.
- Part of the service package is meeting customers' needs
- Need – (a) Price transparency and flexibility, and (b) Technology (enabling)
- How many interfaces with market participants do consumers want?
- Victoria has the highest churn of electricity customers in the world because it is a de-regulated market. However innovation is needed but this is limited by short pay back periods and technology.

Q.4 Planning/investment by networks

- Current incentives and regulation are not delivering efficient DSP.
- Current ability to earn on return on deferred investment allows temporary removal of disincentives but does not provide true incentives.
- There is some improvement in DSP for contingency against higher than forecast peak demand but not for ongoing resource provision.

- Networks have 'more comfort' in capex to meet their reliability standards than DSP. Probabilistic planning may help in principle but there is little impact in practice. Dispensation for reliability standards could help DSP.
- The regulatory test requires the investigation of DSP, but there is not much delivery flowing from this procedure.
- Need to require implementation/ demonstration and not theoretical assessment (but this will just lead to a high cost demonstration) or possibly need to provide an alternative source of demonstration and assessment.
- Need a longer time-frame for procuring DSP – not a cursory EOI or investigation just before network augmentation.
- Need to be able to implement 'non-firm' DSP – in part to demonstrate firmness. Recognise some DNSPs are conducting good trials.
- DNSPs have repeatedly sought more policy and regulatory support for DSP.
- Need to 'sweeten carrots' (over-incentivise) in the short-term to drive cultural and institutional change (and penalties if they don't).

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- Need better reporting and benchmarking to encourage mutual learning. The current absence of DSP is hurting customers (especially in relation to peak demand and low asset utilisation). Some members thought that DNSPs should feel these costs.
- Others consider that DNSPs currently may lack the expertise to evaluate DSP benefits.

Q5. Supply chain interactions

- DNSP's and retailers have differing times when they want to manage risk and overcome short-term failure –hence there are differing incentives.
- Customers really just want to lower their bills. They want to get the most for the least money. Reducing the total cost to consumers means the best retail outcome. There is a need for someone who actively works on behalf of consumers.
- The lack of mature markets for DSP services may justify a “single actor” role in the short to medium term.
- More work is needed in considering the various designs of a single actor model.

- Establishing an agent for consumers – how can this be facilitated and encouraged? Incentives need to be aligned so that consumers do not have to put all the pieces together themselves.
- How can we get an efficient means of dealing with the consumer? Technology is important. One party only should be billing the consumer.
- Customer advocates need access to consumer data, tariffs and pricing plans. Dynamic activity and market place for these kinds of actors but may create confusion in the market.
- What would happen if we required the networks to apply ToU not to the customer but to the retailer?