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Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
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Dear Mr Pierce

Re: Power of consumer choice

Alinta Energy is pleased to have the opportunity to comment on the AEMC Issues Paper: 'Power of choice - giving consumers options in the way they use electricity'.

Alinta Energy is an active investor in the energy retail, wholesale and generation markets across Australia. Alinta Energy has over 2500MW of generation facilities in Australia (and New Zealand), and maintains over 620,000 retail energy customers, predominantly in Western Australia. Alinta has obtained a licence to retail electricity in the South Australian market, and began acquiring customers in August 2011. It will be expanding its retail operations into all NEM states in the near future.

Overview

A primary focus for energy markets is reliability of supply. Given Australia's resource abundance it has historically been cheaper to develop supply-side solutions to ensure consumers have a consistent electricity supply from energy providers.

We believe this historical focus on supply-side solutions has been efficient, appropriate and in the long-term interests of customers; consistent with the National Electricity Objective.

Nevertheless, in the current environment of rising costs and therefore prices, and higher levels of peak demand, Alinta Energy agrees that cost effective demand-side participation's (DSP) contribution to efficient energy markets is likely to grow over the longer-term.

In short, DSP is an important complement to reliability of supply and efficient operation of electricity services. As such, we support the AEMC's consideration of DSP, and consumer choice, particularly in light of smart grid and smart meter technologies.

However, given the conclusions in the Final Report of the Stage 2 Review of DSP, Alinta Energy would be concerned if this review were to result in significant changes to the current energy market architecture for the purpose of promoting DSP. While Alinta Energy supports progressing the proposed rule changes from the Final Report through the rule change process we remain unconvinced that there are notable barriers to entry which actively prevent DSP in the National Electricity Market. Our position is consistent with the Final Report.

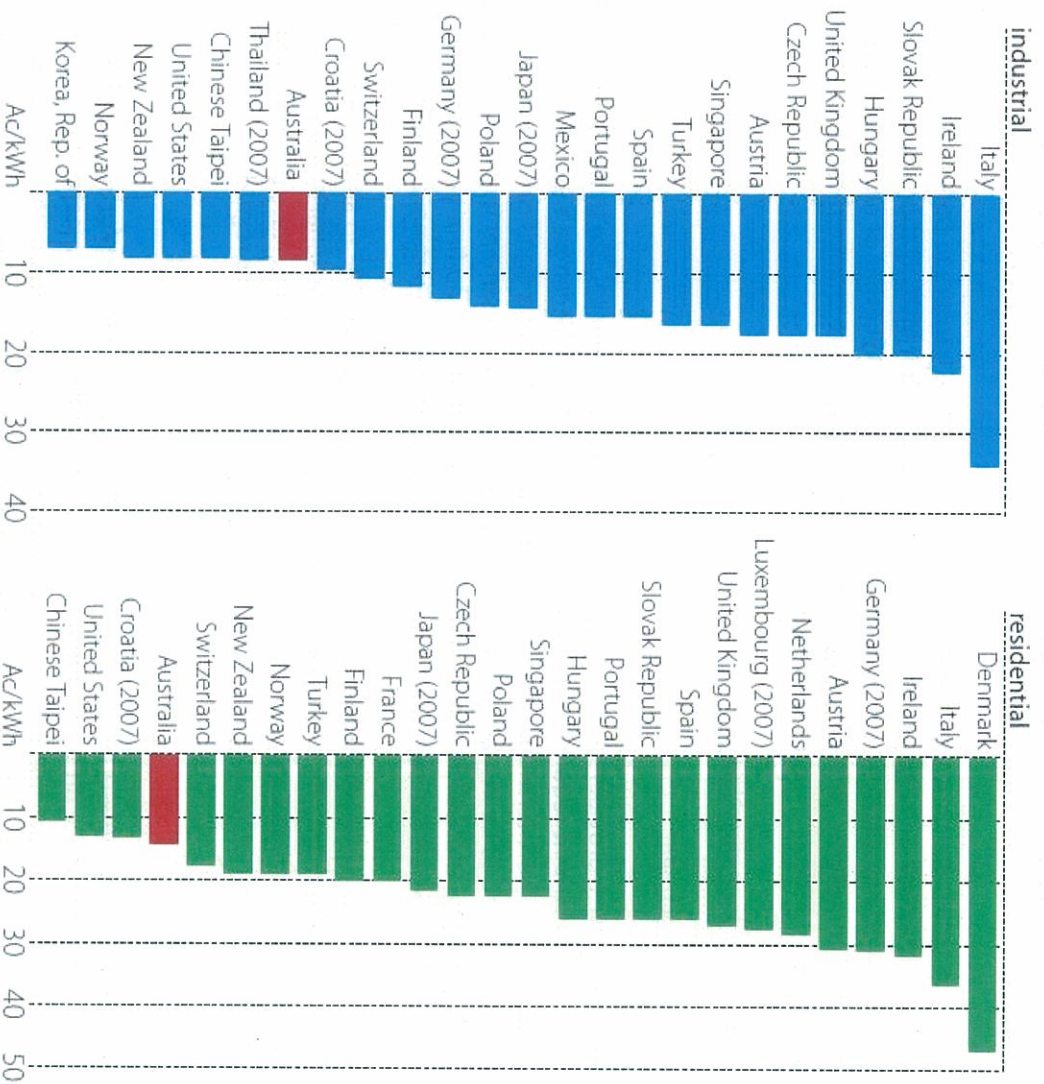
We suggest the level of DSP that currently exists in the market is appropriate at the present time in light of the following factors:

1. Australian electricity prices, while increasing, deliver low cost energy compared with international peers (see Figure 1);
2. Currently, most customers appear to value their consumption of electricity more than the potential revenue obtainable from a DSP contract and the potential avoided cost of consumption;
3. The absence of appropriate retail pricing mutes the price signal for consumers even in circumstances where some consumers may place a higher value on DSP than consumption; and
4. The ability of retailers to mobilise small customer DSP is inherently more difficult than progressing DSP options with large-scale customers and requires appropriate enabling tools. Hence, retail consumers acting in isolation are likely to lead to less DSP than in circumstances where retailers have greater coordination through pre-commitment at times of peak demand.

Discussion

Australian delivered electricity, while increasing, is modestly priced compared with international peers (see Figure 1 below). Furthermore, reliability in the National Electricity Market has, since market start, been within the reliability standard of 99.998% in all regions.

Figure 1: ABARE comparison estimates of world electricity prices, 2008, selected countries¹



Given the relatively low cost of reliable Australian energy, and as a proportion of household spend, it is not necessarily surprising that consumers would not prioritise DSP above other consumption decisions at a household level.

Furthermore, given these historically low prices, and the generally inelastic nature of energy consumption (in the near term), it is expected that customers value their consumption of electricity more than potential revenue from a DSP contract and the potential avoided cost of consumption.

As such, Alinta Energy believes the case for changing the market architecture which facilitates the low-cost, high reliability energy service that supplies Australian households and business is not particularly strong. As a result, Alinta Energy is cautious about seeking to induce consumer behaviour where there is an absence of evidence to suggest DSP is below efficient levels.

¹ ABARE (2010) *Energy in Australia 2010*, extracted table 'World electricity prices, selected countries, 2008 a', pg. 26

Hence, any case for change made by the AEMC needs to be subject to an appropriate cost-benefit analysis, beyond the existing qualitative discussion, underpinned by plausible assumptions. In this regard, we support the AEMC's five-stage assessment process (see p.17-18).

While we retain our view that there is an absence of active barriers to DSP in the National Electricity Market we suggest that there are areas for further investigation that may facilitate DSP which do not relate to wholesale market architecture. Whether or not this affects individual consumers, including large-scale users, willingness to change their consumption behaviour is difficult to accurately assess.

Areas for further investigation

Network investment

Network service providers inducing DSP is often raised as a mechanism to alleviate impeding network investment requirements. While Alinta notes that DSP can be a valuable mechanism for alleviating short-term investment pressures we suggest that a significant firm volume of DSP would need to be in place to avoid large-scale network investment in the outgoing years. While we agree that DSP is part of an efficient market, there are no firm indicators that expected DSP levels can significantly alter the existing network investment profile.

We believe it is critical that greater perspective on the scope for DSP to alter network investment requirements is required to ensure appropriate proportionality is introduced into the discussion. Alinta Energy is uncertain whether DSP debates overstate the potential case for savings. Further work by the AEMC would be appreciated in this regard.

Contestability

The interaction of network service providers with customers requires further consideration given network service providers operate in a non-contestable environment. It is not immediately apparent that network service providers, who are effectively running monopoly businesses, should be interacting with customers in the absence of contestability for the services they are offering in the DSP and related space.

Alinta Energy believes it is an area that requires further consideration, particularly in the context of retailers' endeavours to mobilise retail customer DSP responses in light of enabling smart technologies.

Coordination of retail consumer DSP

The ability of retailers to mobilise small customer DSP is inherently more difficult than progressing DSP options with large-scale customers and requires appropriate enabling tools, including cost reflective pricing and appropriate metering technologies. Retail consumers acting in isolation are likely to lead to less DSP than where retailers have greater coordination through pre-commitment at times of peak demand.

The adoption of smart technologies, in tandem with cost reflective and transparent pricing, presents an effective opportunity for retailers to entice retail customers to respond to peak price signals. However, this strategy is highly dependent on the relevant enabling tools, accompanying data and price transparency.

Furthermore, consumers require information on the cost and benefits of DSP delivered through appropriate channels beyond time of billing. Real-time or closer to real-time information will induce more informed choices.

Cost-reflective price signals

Regulated tariffs can mute the price signal for consumers even in circumstances where some consumers may place a higher value on DSP than consumption.

Clearly, consumers can not be expected to respond in the absence of a transparent price signal. We contend that some jurisdictional regulated pricing frameworks reduce price signals and inhibit informed choices.

While deregulated retail pricing, as has been adopted in Victoria, is preferable, it is conceivable that regulated tariffs can be set in a cost reflective, transparent and flexible manner which will enable consumers to identify the costs associated with their consumption over, and at, times when DSP may be more attractive. In this regard, the existing focus on market and regulatory arrangements may ultimately be futile in the absence of transparent cost-reflective pricing.

In relation to vulnerable customers, Alinta Energy supports energy retailers and government supporting customers who can not afford to pay cost reflective tariffs. This can be achieved through retailer managed Customer Hardship programs, as required under the National Energy Customer Framework; and through concessions funded by the relevant government.

Risk of adverse selection

Alinta Energy notes voluntary critical peak pricing options may be put forward during this review. One concern with allowing consumers to voluntarily face critical peak pricing and therefore be included in DSP responses is that of adverse selection. While this issue requires further investigation and qualification, Alinta Energy is concerned that promoting a voluntary approach may result in inefficient outcomes.

If a voluntary model is proposed it is probable that many consumers will stay on a flat tariff regime if they are not incentivised by DSP, while those consumers who choose to face peak pricing will do so when it would require minimal adjustment in their behaviour. The consequence of this would be:

1. a savings to the group facing peak pricing without any real DSP or reduction in peak demand;
2. the group still on a flat tariff would avoid facing cost-reflective prices as their disproportionate peak demand energy use would be paid at the flat tariff rate; and

3. this new and more inefficient distribution would require the flat tariff to rise to take account of the adverse self-selection to peak pricing of proportionally low peak demand energy users.

On this basis, we are concerned any voluntary options will create further inefficiencies while delaying the required move to cost-reflective pricing overall.

Regulatory certainty

It can be suggested that a number of recent energy policy outcomes, particularly in renewable markets, have created considerable uncertainty and highlighted policy risk for investors. Hence, Alinta Energy favours approaches which minimise uncertainty by empowering consumers and investors to make choices in the absence of artificial signals or interventionist mechanisms.

Market and regulatory changes impose additional regulatory burdens on market participants and therefore impose additional costs which must be recovered through increases in electricity prices. A minimalist approach is therefore favoured by Alinta Energy to avoid artificial cost increases without a quantifiable consumer benefit.

Competitive neutrality

Competitive neutrality must be maintained between supply-side and DSP options so as to not artificially bias DSP options over supply options in the National Electricity Market.

This includes allowing consumers to make DSP and consumption decisions based on their own preferences. While the AEMC has indicated that a “key assumption behind this review is that consumers will always make the best decision from their viewpoint” other aspects of the paper often imply a need for additional DSP as if DSP is currently artificially below some theorised ideal level.

We are not aware of any evidence to support this implication and again caution against attempts to induce additional DSP in the absence of consumers’ own preferences to do so.

Information obligations

Information obligations for DSP (i.e. relevant embedded generation) should be comparable to those of generators. This would increase market transparency and hence increase overall market efficiency.

For example, price sensitive loads greater than 30MW should provide comparable information to those of generators. The aggregation of loads (such as hot water ripple control) should also provide comparable information. It is Alinta Energy’s view that unexpected off-loading causes significant inefficiencies in dispatch and in some instances contracting.

Access to comparable DSP information will enable improved demand forecasting which is beneficial to all market participants.

Final Report of Stage 2 Review of DSP: Rule Changes

There is value in the AEMC assessing the package of rule changes from the Final Report of the Stage 2 Review of DSP before advancing further changes. Alinta Energy considers it important to demonstrate how these rules changes have and are intended to change market behaviour before recommending more rule changes to the market and regulatory frameworks.

Alinta Energy holds this view on the basis that an absence of change in behaviour as a consequence of previous changes is likely to reflect our belief that the existing market architecture and National Electricity Rules are not the fundamental reasons for the existing level of DSP.

Conclusion

Alinta Energy supports further investigation of the matters raised in this submission by the AEMC and welcomes the AEMC's ongoing work in this important area.

Alinta Energy acknowledges that while it is not possible to accurately assess the potential for additional consumers choices supporting DSP there may be opportunities to better facilitate informed choices by consumers. However, we caution against unwarranted and un-costed amendments to the operation of the National Electricity Market given the absence of active barriers to DSP.

If you have any queries in relation to this submission please contact Mr Jamie Lowe, telephone, 02 9372 2633.

Yours sincerely



Michelle Shepherd
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Alinta Energy Pty Ltd

