

11 October 2012

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Sir/Madam

Re: Australian Energy Market Commission's (AEMC's) Power of Choice – Giving consumers options in the way they use electricity- Draft Report

Hydro Tasmania welcomes the opportunity to provide the following comments in response to the AEMC's Power of Choice- Giving consumers options in the way they use electricity - Draft Report. Hydro Tasmania is Australia's leading clean energy business and is a material participant in the National Electricity Market (NEM). Hydro Tasmania's wholly owned retailer, Momentum, operates across the mainland regions of the NEM.

Overall Hydro Tasmania believes the AEMC's Draft Report provides meaningful recommendations on ways to encourage demand side participation (DSP) in the NEM. Well implemented DSP mechanisms can play a valuable role in constraining peak demand and potentially reducing future consumer price increases. Hydro Tasmania considers that AEMC's report could be adopted by both State and Federal Government as a roadmap for improving the efficiency of energy usage in Australia.

Hydro Tasmania is nevertheless cognisant that many of the Commission's recommendations are focused on addressing complex problems which will therefore require significant and ongoing coordination between the States, the Commonwealth and industry in order for these to be addressed. Specifically, Hydro Tasmania identifies: the transition to cost reflective pricing and the phasing out of price regulation; the replacement of accumulation meters with smart meters; and the introduction of government programs which educate customers about these developments as challenging yet necessary reforms to encourage greater DSP in the market.

Hydro Tasmania wishes to also direct the Commission to the five working papers submitted by the Energy Retailers Association of Australia for more detailed commentary about smart metering, the roll-out of meters, competitive neutrality, privacy and the involvement of third parties in the sale of energy management services.

Efficient pricing

Hydro Tasmania believes that pricing should reflect the cost of supply, and that price signals should be passed through and communicated to customers so that they can respond using innovative products and services from industry. Price regulation represents a barrier towards greater uptake of DSP because the structure and pricing of regulated TOU tariffs can fail to reflect customers' true demand. Regulated TOU offerings therefore limit retailers' ability to pair innovative services with all DSP technologies. In addition, regulated TOU tariffs are unlikely to reflect the entire costs borne by a retailer for any marketing or product development costs accrued for DSP activities.

Improving consumer confidence

While the introduction of smart metering is dependent on technology and the development of TOU tariffs, it is fundamental that any coordinated roll-out provides customers with information about how these changes will affect them. Given that the success of DSP depends on customer's willingness to change their behaviour, it is important that customers have confidence in the new technology and also understand how they can benefit from TOU through behavioural changes. Unfortunately, many programs to roll-out smart meters around the world have taken much longer to complete than anticipated due to the programs being poorly communicated and therefore understood by the affected customers. In Victoria, the lack of a comprehensive communications campaign to customers has been identified as one of the underlying causes of low consumer confidence in the technology and program, and as such, has required the roll-out to be extended.¹ To address this issue, the Government, Industry and consumer groups are working together to ensure customers are better educated when TOU pricing begins in 2013.

As well as consumer education, one of the other recommendations Hydro Tasmania supports in the Report to improve customer confidence with TOU pricing and smart metering is ensuring customers provide their explicit informed consent when transferring to TOU offers. Specifically this will also allow customer to conduct their own research and determine the most appropriate time to transfer onto a TOU tariff. However in order to provide retailers with the ability to offer both flat and flexible tariffs, it is fundamental that distribution businesses are required to offer retailers both flat and variable network tariffs, so as they can match the appropriate network tariff with the relevant retail offer.

As part of any smart meter roll-out, it is also important that there are simple and effective ways for consumers to assess whether they might be better off on a TOU offer. While the ability for customers to access their data is fundamental for them to conduct such a comparison, the most appropriate way for customers to do this is via the development of customer profiles. Hydro Tasmania does not support proposals such as iHub, as they are likely to be costly to develop, difficult to administer and will have significant privacy and security challenges to overcome.

DSP in wholesale markets - Commercial and Industrial customers

Hydro Tasmania supports in principle demand side response mechanisms that enable consumers to change demand via the wholesale market as a result of price changes; this can be of particular value for commercial and industrial customers. Hydro Tasmania is aware of large customers which already undertake such responses in market. Hydro Tasmania is not entirely convinced that the amendments to the design of the market, and the classification of customers under the AEMC's consideration, are needed. However, if the AEMC does recommend that a new classification of participant is required for DSP aggregators, Hydro Tasmania believes any such entities should at a minimum, hold an Australian Financial Services License and have the appropriate prudential guarantees.

Third Party DSP providers

Hydro Tasmania supports the entry of third party DSP providers, such as those selling electric vehicle services as way to optimise the use of electricity across the market. It nevertheless does not believe specific arrangements are warranted to facilitate the entry of these types of entities into the market.

¹ Victorian Auditor-General, *Towards a 'smart grid'—the roll-out of Advanced Metering Infrastructure* (Melbourne 2009), p. 13

Given electricity is an essential service any third party DSP provider should be bound by the same regulatory requirements as retailers.

National Energy Efficiency

Along with TOU and smart meters, improving energy efficiency represents an important strategy to reduce peak demand and help customers to lower the amount of electricity they use. While Hydro Tasmania acknowledges the intent of the energy efficiency schemes which have been implemented by the respective State Governments, it is unfortunate that there has not been greater progress towards the harmonisation of the schemes and reducing the regulatory burden on retailers which operate in the SA, VIC, NSW and ACT markets.

Hydro Tasmania recognises the potential benefits of a national energy efficiency scheme, but only if it is designed in a way which minimises compliance costs on retailers, rather than simply adopting the specific features of the existing programs. As such, Hydro Tasmania does not support the incorporation of specific targets for energy efficiency activities for vulnerable customers as part of the design of any national energy efficiency scheme.

We welcome the opportunity to provide the Commission with further information about the contents of this submission or any other issues. Should you have any queries or require further information, please contact Mr Alastair Phillips (email alastair.phillips@momentum.com.au or phone (03) 8612 6471).

Yours faithfully



Stephen Bendeich
General Counsel

