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Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Mr Pierce

Thank you for the opportunity to provide comment on the Australian Energy Market Commission's (AEMC) Draft Report 'Power of Choice – giving consumers options in the way they use electricity'.

Earlier this year, the South Australian Government identified affordable living as a primary area of focus for action in South Australia. We welcome recommendations for energy market reform which will ensure that consumers are provided with the necessary tools to take control of their energy consumption and energy costs.

Accordingly, please find attached for the AEMC's consideration, a response to the Draft Report prepared by the Energy Markets and Programs Division within the Department for Manufacturing, Innovation, Trade, Resources and Energy.

Should you wish to discuss the Division's submission, please contact Ms Rebecca Knights, Director Energy Markets, or Ms Anne Hill, Director Demand Management and Advisory Services, on (08) 8206 5500.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Vince Duffy', written over a printed name and title.

Vince Duffy
EXECUTIVE DIRECTOR

ENERGY MARKETS AND PROGRAMS DIVISION

19 October 2012

Energy Markets and Programs Division Submission to the Power of Choice Review: Draft Report (EPR0022)

The Energy Markets and Programs Division (the Division) of the South Australian Department for Manufacturing, Innovation, Trade, Resources and Energy welcomes the opportunity to provide comment on the Australian Energy Market Commission's (AEMC) Draft Report – Power of Choice: giving consumers options in the way they use electricity. The information provided below is for the AEMC's consideration in drafting their Final Report.

DSP in wholesale markets

The AEMC recommends the introduction of a demand response mechanism whereby participating consumers can either choose to continue consuming, or reduce their consumption by a certain amount, for which they would be paid the prevailing spot price. It is also proposed a third party could act on behalf of the consumer to offer demand side response at the spot price.

The Division supports the concept in principle because of the potential demand response benefits and financial benefits to the consumer. We agree with the AEMC that further analysis on the details of the proposal is required, for example in relation to how to:

- include scheduled demand resources in AEMO's dispatch process, and
- calculate the consumer's baseline consumption which determines the amount of payment.

While the Division appreciates this is a highly complex model, we consider the summarised description of the mechanism requires greater clarity in the Final Report.

Further, the Division supports the AEMC's proposal that key market institutions establish a working group to further develop the implementation methodology – with this Group to be advised by key industry representatives. In addition jurisdictional representatives should have the option of joining this working group. The Working Group should have broader terms of reference than proposed on page 68 of the Report to ensure all aspects of this mechanism are considered.

Amendment of NER to clarify AEMO role in forecasting

The AEMC recommends that the National Electricity Rules (NER) are amended to clarify the role of the Australian Energy Market Operator (AEMO) in developing both long and short term demand forecasts. This includes estimating Demand Side Participation (DSP), for the purpose of providing accurate price signals to the market over various time frames including pre-dispatch. The Division considers the merits of including non-scheduled supply as a formal forecast requirement need to be assessed against the potential inaccuracies of including more variable non-scheduled supply in a total forecast.

New category of market participant

The AEMC recommends creation of a new category of market participant in the NER that will allow for the unbundling of non-energy services (e.g. ancillary services) from the sale and supply of electricity. In principle, the Division sees

no reason why third parties could not supply ancillary services through demand adjustments, provided that their response is significant enough to shift system frequency (or other ancillary service) and fast enough to do so within the required response time. The commercial uptake of this small and specialist service may not however be extensive, as providers will face more complex coordination issues than do generators currently providing the service.

Distribution network incentives and distributed generation

The AEMC recommends the AER consider reforming the application of the current demand management and embedded generation connection incentive scheme to provide an appropriate return for DSP projects which deliver a net cost saving to consumers. The Division considers that before changes to the incentive regime are introduced, further analysis on the relative economic efficiencies of a capex project and the equivalent demand side project should be conducted to ensure that necessary capex projects are not inefficiently delayed.

Efficient and flexible pricing options

The AEMC proposes that transition to better price signals should be done in a gradual phased approach, achieved through:

- Focusing on introducing time varying prices for the network tariff component of consumer bills. Retailers would be free to decide how to include these network tariffs in their retail offers; and
- Segmenting small consumers into 3 consumption bands, where only the large consumption band would face mandatory time varying network tariffs. This band would be required to have a meter that can be read on an interval basis.

A further recommendation is:

- Distribution network pricing rules in the NER are amended so that distribution network businesses have sufficient guidance to set efficient flexible network tariff structures that support DSP.

The Report states its focus is not on 'perfectly cost reflective prices' from a theoretical stand point. Rather it is on prices likely to provide more efficient signals to consumers than those already in place. This may involve prices varying by time and location.

The AEMC notes there is a wide range of tariff options, either currently available or in trial stages, that provide varying degrees of cost reflectivity above existing flat tariffs – including 'new forms of network charges that attempt to capture the cost of peak demand (such as capacity based charging)' (p. 84). In particular (p.107), in relation to proposed revised distribution pricing principles, the AEMC advises that guidance on calculating time varying network tariffs should have regard, inter alia, to the list of efficient cost reflective prices in Appendix B, which includes a 'capacity or demand based charge'.

The AEMC also states that tightening the pricing principles should still afford 'sufficient flexibility for distributors to craft innovative network tariffs relevant to their own circumstances and preferences' (p 108). On this basis the Division

assumes that distribution businesses will have the flexibility to trial and implement the tariff structure most appropriate for the particular jurisdiction.

We agree, as noted by the AEMC, that 'more analysis is needed on how distribution businesses could move from consumption charges to demand charges and how best to manage the resulting impacts on consumers' (p107). The outcomes of SA Power Network's planned capacity charging trial (2012-13) will assist in contributing to this analysis.

The Division agrees that 'more analysis is required on the design of the time varying network tariff ... there may be merit in gradually increasing the degree of cost-reflectivity in the time varying network tariff over time.'

Separately, the Division supports the creation of a framework comprised of efficient and flexible pricing options as a means to help create a setting that can support electric vehicles without having an adverse impact on the grid. Furthermore, by implementing appropriate tariff regimes that incentivise charging vehicles outside of peak times, the Division considers that EVs could actually be of benefit to help manage the State's peak demand issue.

Vulnerable customers

The Division supports the AEMC's proposal that arrangements are made to ensure vulnerable consumers with a limited capacity to respond to time-varying price signals have the option to remain on a flat network tariff.

Enabling Technology

The Division strongly supports the AEMC's recommendations regarding competition in the provision of metering services. A customer should have the power to choose the metering provider, including from a retailer, NSP or a third party. To facilitate such competition all future meters should meet a minimum functionality specification. This is again to ensure customers are able to choose the retailer and/or tariff that best meets their individual situation without the need to upgrade their smart meter, notwithstanding some re-programming may be required in certain instances.

It is noted that in December 2011 the Standing Council on Energy and Resources (SCER) endorsed a national minimum functionality specification for smart meters. It is understood further work regarding its implementation and any necessary transitional arrangements is still required. It would be expected that the specification referred to in the Report would be consistent with this version.

When residential customers have an interval meter


The Division supports that once a residential consumer has a meter which measures on an interval basis (ie every 30 mins), that consumption should be settled in the wholesale market using the interval data and not the net system load profile. This should be the case irrespective of whether the consumer has a flat retail tariff. Our support for utilising the improved accuracy of interval meter data is based on the proviso that the administrative costs for settlement using the interval data does not outweigh the benefit of its use.

The NECF

The AEMC recommends the NECF is clarified to make clear what arrangements apply to third parties providing "DSP energy services", possibly establishing criteria either in the NECF or the Australian Energy Regulator (AER) guidelines on retail exemptions.

AEMC has recognised that the NECF's primary objective relates to the sale and supply of electricity and gas. The Division notes that the AEMC does not consider amending the test under the NERL for retail authorisations to include "sale of energy services". The exemptions regime, under which the AER's Exempt Selling Guidelines is enforced, has been developed to provide alternative energy sale and supply arrangements for those entities that are not suited to hold a National Retailer Authorisation. Energy Division believes that, as currently drafted, the exempt selling regime under the National Energy Retail Law may not cover "energy services". The AEMC may need to further consider options for enabling the application of the NECF to energy service providers.

The Division suggests that certain parts of the NECF should apply to "energy services" to ensure high levels of protection for consumers and certainty for energy service providers. Examples of those areas include energy marketing and membership to the ombudsman scheme.



Vince Duffy

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