

# Power of choice review – Synopsis of the third Stakeholder Reference Group meeting

The third meeting of the Stakeholder Reference Group (SRG) was held on Friday 11 May 2012. The purpose of the meeting was to begin designing solutions to issues identified in the Power of choice directions paper. The Commission are keen for the input of stakeholders and SRG members into developing solutions to some very complex issues.

## Recap of Power of choice directions paper

The Chair gave a recap of the issues raised in the Power of choice directions paper:

- Premise of directions paper is that certain market conditions are required for efficient demand side participation. Analysis was segmented into four key areas: consumer participation, the wholesale market, networks, retailers and other parties in undertaking DSP. These areas form the four key umbrella areas for investigating how to improve the efficient uptake of DSP.
- The aim for the next phase of the review is to develop draft recommendations concerning market and regulatory arrangements. We expect to recommend a spectrum of measures that can be implemented reasonably quickly, and others that may require a longer time frame and path to implementation.

## Focus of third SRG meeting

The Chair outlined the areas it was seeking input from SRG members for this meeting:

- Consumer participation
- Cost-reflective pricing

At the conclusion of each set of presentations SRG members were invited to discuss in groups potential solutions.

The Chair emphasised that the propositions presented at the meeting were based on staff analysis and discussion with stakeholders, and are not the view of the Commission.

## Consumer participation

AEMC staff gave a presentation on issues relating to consumer participation and pricing and some potential solutions to these issues. The presentation covered the following points:

- Consumer access to data should be framed by a number of principles including: ownership of data, the format of data (i.e. validated and historical), the obligations placed on retailers and other parties to provide data, and the costs associated with providing data to consumers

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- Principles for accessing consumer data especially in relation to informed consent and arrangements to ensure safeguards are in place for consumers.
- How regulation defines the “sale of electricity”, and that network services will form an important part of the uptake of efficient DSP.
- SRG members were asked to deliberate on whether:
  - any service provider should be able to access consumers’ data;
  - any protocols should be in place so that a consumer only has a single point of contact with respect to the offering of DSP services to consumers;
  - any industry specific provisions should apply to a service provider of non-energy related services?
- Some SRG members questioned whether the rules should standardise data formats given that the preferences of consumers were not known. Others acknowledged that while this may be an issue there was merit in requiring some standards to ensure easy comparison across retailers and companies.
- Some SRG members considered that key aspects of industry specific legislation in the National Energy Customer Framework should apply to third parties, especially in relation to marketing conduct.
- Other SRG members formed the view that if an essential service such as electricity was not being provided then only general consumer protection laws should apply.
- Some members pointed to the National Energy Customer Framework provisions as providing adequate data for residential customers.

## **SRG member feedback:**

- SRG members agreed that aspects of Chapter 7 of the National Electricity Rules could be clarified in the following ways:
  - That consumers own their data. Industry generally accepts this principle already, and operates on this basis;
  - Distinguishing between ex-post data and real time meter read data;
  - Distinguishing between commercial and industrial users and residential users.

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## Cost-reflective pricing

AEMC staff gave a presentation on issues relating to cost-reflective pricing and some potential solutions to this issue. The presentation covered the following points:

- Moving to more time sensitive tariffs will require appropriate consumer safeguards. Some of these issues and solutions are being considered by SCER.
- How to resolve cost-reflective pricing for networks, with some potential solutions being to amend pricing principles, make aspects of the tariff structure part of the revenue cap process.
- Greater involvement for retailers and consumers in developing appropriate tariff structures was also raised as a potential solution.

**Frontier Economics** presentation focussed on the implications of time sensitive network pricing on retailers and the treatment of vulnerable customers:

- Frontier observed that we are not seeing retailers move into the space of time sensitive tariffs and smart meters as it is difficult to be precise about the extent to which a customer will be better off as they don't know the consumer (and their profile).
- Retailers face a number of wholesale pricing risks in serving residential customers on cost-reflective pricing, namely that residential profiles are 'peakier' than anticipated and wholesale price are higher than anticipated.

- Difficulties with moving to cost-reflective pricing is also due to lack of consumer understanding of interval metering and time-sensitive tariffs.
- Retailers face difficulty in absorbing time sensitive network tariffs. A likely option for overcoming this is retailers supplementing time-sensitive network tariffs with energy costs to get peakier time-sensitive retail tariffs.

**Oakley Greenwood** presentation focussed on issues associated with load profiling in order to complement time-sensitive tariff structures:

- The first part of the presentation covered AEMO's current methodology for determining deemed load profiles for accumulated metered customers' load profiles, and included international perspectives on this issue.
- Oakley Greenwood proposed that if load profiling were introduced in the NEM in order to provide an incentive on retailers to take up demand response and inform structuring time sensitive tariffs, the following rationale and criteria should be applied:
  - Accuracy
  - Provide price signals to inform consumer decision-making
  - Provide basis for demand management programs for non-interval metered customers

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- Least cost
- Does not create a barrier to further technological improvement
- Whether current profiling approaches can adequately meet the above criteria are mixed.
- Options for alternative approaches for load profiling were then considered. This included:
  - Segmenting customers according to similar load shapes
  - Using demand response program samples
- The costs and benefits of using deemed load profiles should be more closely considered in terms of costs and benefits. This issue also needs to be considered in conjunction with smart meter deployment policies as this will have a direct bearing on the success of moving to load profiling.

## **SRG members feedback:**

- There is currently a lack of positive incentives on retailers and DNSPs to act on cost-reflective pricing or be coordinated in this space. Some stakeholders suggested that incentives can only partially resolve this issue and that some rules based measures are needed to ensure co-ordination and action.
- Generally, SRG members agreed that retailers and DNSPs need to talk more.

- Generally, SRG members agreed that the best way to move to time of use pricing is by putting in place interval meters – changes to load profiling may result in increased complexity.
- DNSPs also noted that a degree of regulatory certainty is needed to deploy smart meters. There is currently some uncertainty as to the longevity of some smart meter programs.
- Ambiguity around the definition or meaning of ‘vulnerable customer’ needs clarifying in order to determine the most suitable policy options to assist this type of customer. Is the issue affordability, or the ability to change consumption?
- Time of use pricing would only be effective to the extent that vulnerable customers, and customers more generally, have the ability to respond to price changes.
- Some SRG members noted that provisions for vulnerable customers should not be pursued through hardship policies under the National Energy Customer Framework as this encumbered retailers with additional costs that would be recovered from the market more generally.

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## Concluding comments from the Chair

The Chair reiterated that the review was now moving into the solutions phase, and that the feedback from SRG members and stakeholders to date has been beneficial. The Chair encouraged stakeholders to continue to discuss the issues and solutions with AEMC staff in the policy development cycle.

The Chair observed the degree of consensus amongst participants and stakeholders more generally, and that the time was now critical to make progress on these issues.

The Chair noted that the next meeting of the SRG will be in Sydney on Monday 28 May between 12:00 and 4:00pm.