



Department of Primary Industries

Telephone:
Facsimile:
ABN 42 579 412 233

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

Our Ref: GB/02/007

Dear Mr Pierce

SUBMISSION TO DEMAND SIDE PARTICIPATION REVIEW STAGE 3 REPORT

The Victorian Department of Primary Industries (DPI) welcomes the opportunity to comment on the Australian Energy Market Commission (AEMC)'s Draft Report for stage three of its review of Demand Side Participation (DSP) in the National Electricity Market- "Power of Choice".

DPI has addressed each of the AEMC's draft recommendations in the attached table, but would like to highlight the following key points of its submission.

Victoria's approach to DSP

DPI notes that the Victorian Government is undertaking steps to assist customers manage their demand by:

- Introducing flexible pricing in mid-2013;
- Helping customers reduce their consumption through the Victorian Energy Efficiency Target scheme; and
- Providing customers with simple information regarding their usage through the new Switch On website.

Introducing flexible pricing

DPI is supportive of the AEMC's recommendation to gradually introduce flexible pricing. The Victoria Government is leading in this area, with the announcement on 26 September 2012 that flexible pricing will be available to consumers from mid-2013.¹ DPI encourages the AEMC to consider the work undertaken by Victoria in this area.

As flexible pricing will change the way that many customers are currently billed for their usage, Victoria has spent significant time and effort developing an implementation plan that will ensure a smooth transition. Victoria's flexible pricing policy has been developed in close consultation

¹ See Media Release from the Minister for Energy and Resources, the Hon Michael O'Brien MP, <http://www.premier.vic.gov.au/media-centre/media-releases/4977-greater-pricing-choice-for-victorian-energy-consumers.html>, dated 26 September 2012.



with industry and key consumer and welfare groups through the Advanced Metering Infrastructure Ministerial Advisory Council that was established in early 2012.

Further information about the Victorian Government's introduction of flexible pricing is available at www.switchon.vic.gov.au.

AEMC's contestable smart meter roll out model

DPI anticipates that, given that electricity is an essential service, there is likely to be a strong role for governments even where smart meters are installed under contestable/commercial arrangements. Issues relating to the treatment of consumers that do not want to have smart meters and are unable to take advantage of flexible pricing should be addressed in considering any move to a competitive model. Similarly, DPI believes that the facility for a jurisdiction to mandate a roll out should be retained within the National Electricity Law (NEL), recognising that some legislative constraints may need to be considered so as not to present any unnecessary investment uncertainty to a contestable/commercial roll out.

The AEMC could provide a timeframe in its Final Report for jurisdictions to consider amendments to the NEL in this area, noting that the timeframe will need to be long enough for jurisdictions to determine what effect, if any, the current provisions in the NEL have on a contestable roll out model.

If you have any questions in relation to this submission please contact Erin Dempsey, Policy Officer at DPI, via email at erin.dempsey@dpi.vic.gov.au.

Yours sincerely


Mark Feather
Executive Director
Energy Sector Development

26 / 10 / 12



with industry and key companies and working groups to reach the relevant planning
information to the relevant bodies. (This was completed in early 2012)
I refer to the information about the 7 working documents, a list of which is
available at www.sustainable.gov.uk.

12. The 7 working documents were as follows:

- (1) *Transportation* - this document is an important part of the plan as it sets out the
for the government's 2012-15 transport strategy and includes a number of key
transportation, including the 7 working documents, and the 7 working documents
include a number of key elements of the plan, including the 7 working documents
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It will be the responsibility of the relevant bodies to ensure that the relevant
information is available to the relevant bodies in a timely manner.

Yours sincerely,

[Signature]

Minister for
Transport
Department for Transport

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Department of Primary Industries response to the Australian Energy Market Commission's draft recommendations

Action Item	Draft Recommendation	Department of Primary Industries (DPI) Comments
IMPROVING CONSUMER PARTICIPATION		
Demand Side Participation (DSP) in the wholesale market	A demand response mechanism that pays changes in demand via the wholesale electricity market is introduced. Under this mechanism, consumers participating in this mechanism can either make the decision to continue consuming, or reduce their consumption by a certain amount for which they would be paid the prevailing spot price.	<p>The ability for this measure to reduce the wholesale price will depend on the price large energy users are paid for reducing demand. It would be useful to clarify whether the Australian Energy Market Commission (AEMC) proposes to pay large energy users the spot price which occurs before demand side response is taken into account, or after. Proposed arrangements should be tested to ensure that the overall effect would be to lower wholesale prices at times when demand side response is used and that arrangements minimise opportunities for gaming by participants. It would also be useful to clarify any effects on generator revenues, their financial viability and security of supply.</p> <p>Furthermore, participation of electricity consumers in the wholesale electricity market requires that a baseline is set, against which a reduction in demand is measured over time. DPI agrees with the AEMC that the methodology of setting the baseline is of utmost importance to ensure an efficient market response. Further to the considerations raised in the paper, DPI makes the following comments:</p> <ul style="list-style-type: none"> • The baseline method should be designed to avoid potential gaming of the mechanism. For example, if sufficiently high wholesale prices are anticipated in future, there is an incentive on consumers to increase their consumption in order to increase their baseline and baseline adjustment. This would result in the demand response provider being over-compensated for the real demand reduction that they provide. The length of time over which the baseline is set is an important factor in this consideration. A longer time period will raise the cost to a demand response provider of artificially increasing consumption. In this respect, the magnitude of baseline adjustment allowable under the mechanism should be carefully set. • The baseline method is more suited to those consumers that have a consistent demand profile than those that don't. Demand response from both types of consumers is equally valuable to the market, so it should be considered whether the baseline method may either inadvertently exclude some

Efficient and flexible pricing options		<p>consumers or result in inaccurate baselines for consumers with variable demand profiles.</p> <ul style="list-style-type: none"> Given that the baseline method essentially relies on forecasts and modelling, trials should be undertaken to test the accuracy of such forecasts before implementation occurs. These trials should focus on assuring the Australian Energy Market Operator (AEMO) and the potential demand response providers that the methodology is robust and will be workable once implemented. 	<p>consumers or result in inaccurate baselines for consumers with variable demand profiles.</p>
	<p>The National Electricity Rules (NER) is amended to clarify AEMO's role in developing both long and short term demand forecasts. This includes estimating DSP, for the purpose of providing accurate price signals to the market over various time frames including pre-dispatch.</p>	<p>DPI agrees that increasing levels of DSP creates the need for AEMO to progressively increase the evaluation of DSP in its short term and long-term demand forecasts in order to provide accurate price signals to the market. As discussed in the paper, it is logical for AEMO to include estimates of demand elasticity into the pre-dispatch forecast, supplemented by the collection of information (with appropriate confidentiality provisions) from demand response providers on their anticipated response curves.</p>	<p>DPI agrees that there is no fundamental reason for the provision of ancillary services to be bundled with either the supply or consumption of electricity, as is the case currently. The establishment of a new category of market participant appears sensible in facilitating the unbundling of these services, however the likely uptake by providers of this new category, and the likely value that they offer to the market should be thoroughly examined in comparison to implementation costs.</p>
	<p>Arrangements are put in place for consumers [who may have] a limited capacity to respond, to remain on a retail tariff which has a flat network component. These consumers would have the option to choose a time varying tariff.</p>	<p>Victoria has considered this matter as part of its planned introduction of flexible pricing.</p> <p>DPI agrees with this recommendation in principal but notes that the wording may be misleading. An inability to respond to flexible pricing may not always result in higher costs for consumers. Some customers may not be able to adjust the time of day they use energy, but due to their circumstances may still benefit from a flexible network tariff.</p>	<p>Victoria has considered this matter as part of its planned introduction of flexible pricing.</p> <p>DPI agrees with this recommendation in principal but notes that the wording may be misleading. An inability to respond to flexible pricing may not always result in higher costs for consumers. Some customers may not be able to adjust the time of day they use energy, but due to their circumstances may still benefit from a flexible network tariff.</p>
	<p>Government programs target advice and assistance to these consumers to help manage their consumption.</p>	<p>DPI believes that all residential customers should be provided with choice regarding whether or not they should be on a flexible network tariff.</p> <p>The AEMC should make it clear in its Final Report whether it recommends that jurisdictional governments or the Commonwealth government should be</p>	<p>DPI believes that all residential customers should be provided with choice regarding whether or not they should be on a flexible network tariff.</p> <p>The AEMC should make it clear in its Final Report whether it recommends that jurisdictional governments or the Commonwealth government should be</p>

		<p>responsible for this advice.</p> <p>As Victoria is ahead of other jurisdictions in rolling out smart meters, Victoria has taken steps to provide advice to customers about their consumption through the new Switch On website and associated campaign.¹</p> <p>Switch On provides customers with energy saving tips and tools, including an energy calculator, an interactive energy efficient house and advice on shopping around for the best energy retailer. In addition, it provides customers with information regarding Victoria's Energy Saver Incentive scheme. Following the introduction of flexible pricing, it is anticipated that the Switch On Campaign will continue to provide customers with clear information so they understand flexible pricing and how they can benefit from it. DPI notes that this campaign will increase in intensity as it gets closer to the introduction of flexible pricing.</p> <p>The results of this campaign could inform the development of any information campaigns undertaken at a national level.</p> <p>DPI notes that State Governments are responsible for determining energy concessions.</p> <p>The Victorian Government currently provides an uncapped, proportional concession for low-income and vulnerable Victorians. The Annual Electricity Concession provides 17.5 per cent off electricity bills for the whole year, with an adjustment from 1 July 2012 for the Commonwealth carbon price compensation and is responsive to changes in tariff structure and fluctuating electricity prices in a deregulated electricity market. A proportional concession is equitable as it provides the same level of discount to each customer, regardless of household size or type e.g. by providing electricity concessions as a percentage of the total bill, greater support is provided to households who require more electricity such as larger families.</p>
	<p>Governments review their energy concession schemes so that they are appropriately targeted.</p>	

¹ For further information, see www.switchon.vic.gov.au and <http://www.premier.vic.gov.au/media-centre/media-releases/4567-switch-on-campaign-to-help-households-take-charge-of-power-bills.html>.

	<p>Given that flexible pricing will be introduced in Victoria on a voluntary basis together with the responsive nature of Victoria's Annual Electricity Concession, changes to current welfare and concessions arrangements in response to the introduction of flexible tariffs are not required.</p> <p>The introduction of flexible pricing represents a significant reform. DPI believes that customers will be more accepting of flexible retail tariffs if there are transitional arrangements in place, enabling them to better understand the concept of flexible pricing (including making a more informed decision about whether this is the right option for them).</p> <p>In 2013, residential Victorian customers will be able to switch from a retail flexible tariff back to a flat tariff with their existing retailer during a transitional period without incurring administrative fees. This approach was developed in consultation with industry, consumer and welfare groups. This approach may be valuable for other jurisdictions as well.</p> <p>DPI notes that transitional arrangements for retail tariffs have been considered in detail by the National Smart Meter Consumer Protections Papers.</p> <p>DPI agrees with the AEMC's approach in applying different flexible pricing regulatory arrangements to different categories of customers.</p> <p>However, due to the different needs and capacity of residential customers to respond to demand, it is more appropriate for there to be a band that covers all residential customers. In accordance with the suggested structure, residential and small business customers should fall within band 3, with bands 1 and 2 applying to medium to large business customers. This would also prevent confusion for residential and small business customers regarding which of the three bands they fall into. Further to this, the AEMC may consider whether it should align its different threshold bands with the thresholds in the National Energy Customer Framework (NECF). This will ensure consistency across jurisdictions and minimise complexity for customers.</p> <p>Furthermore, DPI believes that consumers are more likely to accept flexible tariffs if they are empowered to choose them in the transition period by opting in rather than opting out. This is supported by work undertaken by Deloitte as part</p>
<p>The transition to more efficient and flexible price options in the NEM should be done in a gradual phased approach.</p>	<p>Focusing only on introducing time varying prices for the network tariff component of consumer bills. Retailers would be free to decide how to include the relevant network tariff into their retail offers.</p> <p>Segmenting residential and small business consumers into three different consumption bands and applying time varying network tariffs in different ways:</p> <ul style="list-style-type: none">- For large consumers (band 1), the relevant network tariff component of the retail price must be time varying. This would require these consumers to have a meter that can be read on an interval basis.- Medium to large consumers (band 2) with an interval meter would transition to a retail price which includes a time varying network tariff component. These consumers would have the option of a flat network tariff.- Small to medium consumers (band 3) would remain on a flat network tariff. These consumers would have the option to select a retail offer which includes a time varying network tariff, if

<p>they so choose.</p>	<p>of its customer impact study into flexible pricing² and is consistent with the Victorian Government's approach to the introduction of network flexible pricing.</p> <p>As a result, DPI recommends that the final recommendations provide for all residential customers to be able to opt in to network flexible tariffs.</p> <p>DPI also notes that the AEMC looked at what support it can provide to vulnerable customers, however there is no definition provided as to what constitutes a vulnerable customer. For example, is it a customer who is facing financial hardship, or is it a customer who will never be able to respond to peak demand and therefore be exposed to higher prices? How this customer is defined will inform whether the AEMC's proposed protections are appropriate.</p> <p>Related to the above point, DPI notes that there is no discussion of what this support entails, nor any discussion of who is responsible for providing it. DPI would like to see this considered further in the Final Report.</p> <p>DPI would also like the AEMC to consider the application of flexible pricing to distributed generation. The Final Report should clarify if customers with distributed generation will be required to take up flexible pricing or if can they remain on a flat tariff option.</p> <p>DPI notes that there may be a need to distinguish between different load profiles when making tariff offerings. At the moment DPI understand many of the retailers struggle to distinguish between different generation types in their systems (for example between wind and solar which will generate at different periods over a 24 hour period). It also appears that in some cases the retailers may be reliant upon network tariffs or codes to distinguish between distributed generation and non-distributed generation customers and between different feed-in tariff offerings. The available codes are not necessarily set up against all different types and offerings.</p>
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² Deloitte, *Department of Primary Industries, Advance Metering Infrastructure Customer Impacts Study – Stage 2, Final Report*, http://www.dpi.vic.gov.au/data/assets/pdf_file/0010/163855/AMI-Customer-Impact-Stage-2.pdf, 20 July 2012.

	Better education and information on the impacts of transitioning to more time varying retail prices.	DPI supports this recommendation and highlights the importance of simplifying information for customers as concepts regarding flexible pricing can be complicated. The AEMC's Final Report should clarify what the roles and responsibilities are in relation to information campaigns. The Victorian Government is currently working on a range of communication measures so that customers can be informed about their options regarding the introduction of flexible pricing in 2013, the outcomes of which may be of interest to other jurisdictions.
	Each year, distribution network businesses will be required to consult with consumer groups and retailers on their proposed tariff structures. Amendments to the distribution pricing principles in the NER economic regulation framework are made to better support the introduction of time varying network tariffs.	DPI supports this recommendation, but would like the AEMC to consider barriers that consumer groups may face and how to overcome these in the Final Report. DPI supports this recommendation.
Settlement	Once a residential consumer has a meter which measures on an interval basis (i.e. every 30 mins), that consumption should be settled in the wholesale market using the interval data and not the net system load profile. This will be the case irrespective of whether the consumer has a flat retail tariff.	DPI supports this recommendation, however this may require IT system changes to be implemented earlier than when it is economic to do so in areas where smart meters are not being rolled out on a mass basis.
Enabling Technology	A minimum functionality specification is included into the NER for all future new meters installed for residential and small businesses consumers. That specification should include, interval read capability and remote communications.	DPI supports this recommendation and notes that the minimum functionality should not be too prescriptive as it may inadvertently limit technology innovation in the future. The Standing Council on Energy and Resources (SCER) endorsed a national minimum functionality for smart meters at its December 2011 meeting. This specification was determined through a significant national process that included a cost benefit analysis and business requirement analysis. While a reduced specification may reduce the meter costs and therefore encourage more installations, the AEMC should undertake a cost benefit analysis to determine whether such specifications would be efficient. If this analysis is not

	<p>The installation of meters consistent with the proposed minimum functionality specification to be required in certain situations (e.g. refurbishment, new connections, replacements). Such metering must also be installed on an accelerated basis for large residential and small business consumers (band 3) whose annual consumption is above the proposed defined threshold.</p>	<p>undertaken, DPI supports the current minimum specifications approved by SCER.</p> <p>This recommendation may create the need for the installation of telecommunications infrastructure with costs passed onto all customers, not just customers who have an interval meter.</p> <p>Further clarity should be contained in the Final Report as to what the AEMC means by "accelerated" as this is unclear. The Final Report should provide clarity regarding whether the AEMC is proposing timeframes for the installation of interval meters and how such timeframes would be implemented.</p>
	<p>Reforms to the current metering arrangements are necessary to promote investment in better metering technology and consumer choice. We have put forward a model where metering services are open to competition and can be provided to residential and small business consumers by any approved metering service provider.</p>	<p>DPI notes that initially many customers will not arrange for a new meter installation unless there are clear benefits available to them, for example customers with high peak usage levels may have fewer incentives to obtain smart meters. Any new framework for metering services must be able to accommodate and recognise the current arrangements and commitments in Victoria. In particular, there may be a risk that commercial, regulatory and technical frameworks are developed which do not accommodate Victorian arrangements. In the absence of flexibility there could be unanticipated consequences, for example on retail competition.</p> <p>DPI would like the AEMC to further consider the risks and issues that may arise with a commercial/contestable model.</p> <p>In addition the AEMC should consider:</p> <ul style="list-style-type: none"> • Whether the AEMC is confident that competition will be effective under a contestable/commercial roll out model. • Whether the complexity of the AEMC's final proposed roll out model could confuse customers and prevent the benefits of the roll out from being realised. • Whether there will be adequate incentives for parties, such as retailers, to roll out smart meters. • The estimated time a roll out under the AEMC's model would take to be completed. A slow roll out may delay the benefits of installing smart meters

		<p>on DSP.</p> <ul style="list-style-type: none"> The treatment of customers that do not have a smart meter (including the pricing arrangements for these customers). <p>DPI would like the Final Report to provide clarity regarding the metering arrangements for customers who are in the “opt out” band presented by the AEMC for flexible pricing. Based on the AEMC’s recommendations, these customer must have smart meters installed on an accelerated basis in order to be put on flexible tariffs. The rights of these customers in relation to their smart meter installation should be more clearly defined in the Final Report.</p> <p>DPI agrees with this recommendation. This matter has caused compliance issues in Victoria where distribution businesses are technically in breach of the NER for providing customers with energy data through In Home Displays. It is important that Clause 7.7(a) be amended so that businesses are not in breach for realising the benefits of the smart meter roll out.</p> <p>In response to this issue in Victoria, the AER has provided guidance on compliance which will be in place until 31 December 2013 to allow development in this area.³ To prevent regulatory uncertainty for industry, DPI encourages a rule change to be progressed to allow other parties such as distributors to provide data directly to customers.</p> <p>DPI notes that the provision of consumption data in a standard format is likely to benefit consumers, as well as other parties, through increased transparency, competition and scope for innovation. It is possible that a standard data format may support the development of third party services which support consumers understanding of, and engagement with, the market.</p> <p>DPI notes that other parties in addition to retailers can provide customers with information regarding their load profile, such as distributors and AEMO. DPI notes that distribution businesses have continuity of information on usage rather</p>
Facilitating consumer access to electricity consumption information	<p>[Changes be made to] Chapter 7.7 (a) of the NER to clarify the requirements on a retailer when consumers request access to their energy and metering data. This would include provisions relating to the format and structure of data to be provided; the timeframes for delivery; and fees that can be charged.</p>	
	<p>[Changes be made to] Chapter 7 of the NER to require, at a minimum, a retailer to provide residential and small businesses consumers with</p>	

³ AER, *Compliance Bulletin No.8: Confidentiality requirements for energy metering and NMI standing data*, http://www.aer.gov.au/sites/default/files/D12%2065032%5BV2%5D%20%2020120629%20-%20Compliance%20Bulletin%208%20-%20Confidentiality%20requirements%20for%20energy%2C%20metering%20and%20NMI%20standing%20data%20-%20for%20web%20upload_0.pdf, 29 June 2012.

	<p>information about their electricity consumption load profile. There may be a need to amend the NECF to ensure consistency of arrangements.</p> <p>[Changes be made to] Chapter 7.7 (a) of the NER to enable agents, acting on behalf of consumers, to access consumers' energy and metering data directly from a retailer. This would include requirements on a retailer to provide consumers' energy and metering data to an authorised consumer's agent (third party), following explicit informed consent.</p> <p>Changes be made to the NER to require AEMO to publish market information on representative consumer sector load profiles.</p>	<p>than a customer's retailer.</p> <p>DPI notes its concerns outlined above that the AEMC should consider whether parties other than the retailer should provide this information. In addition, DPI notes that data should be provided on a timely basis, but only with the consumer's explicit informed consent. DPI would like the Final Report to define what the AEMC believes "timely" means.</p>
Role of parties to engage with consumers	<p>NECF is clarified to make it clear what arrangements apply to third parties providing "DSP energy services". This should involve establishing criteria either in the NECF or the AER guidelines on retail exemptions. The criteria could include the circumstances where accreditation (or exemptions) of parties is required and the relevant provisions of the NECF that would apply (ie marketing rules, and the relevant enforcement and monitoring provisions).</p> <p>The NER and NECF are clarified to outline the conditions when a distribution network business can engage directly with consumers to offer DSP network management services. This may involve establishing appropriate guidelines/process for the AER to apply and outlining which elements of the NECF apply.</p>	<p>DPI supports this recommendation, however the report does not contain enough detail regarding what information would be contained in the load profiles. This information would need to be in a format that is useful for customers to make changes to their usage.</p> <p>DPI agrees that there needs to be further regulation that applies to third parties.</p> <p>DPI notes that this matter has been considered in greater detail by the National Smart Meter Consumer Protections Papers.</p>
		DPI agrees with this recommendation.
DISTRIBUTION NETWORK INCENTIVES AND DISTRIBUTED GENERATION		
Distribution network incentives and distributed generation	<p>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. We have put forward</p>	<p>DPI welcomes changes to the economic regime to incentivise DSP through distributed generation. As the benefits from embedded generation and demand side participation may be realised over a time period which is longer than a price setting period it will be important that any reforms do not inadvertently give rise to more generous payments to network businesses.</p>

	principles and two mechanisms for how this could be achieved.	<p>In addition, while DPI welcomes the proposed changes to the incentive regime, the AEMC's changes are minor in nature. Further reform could include the implementation of a Total Factor Productivity (TFP) regime across jurisdictions. DPI notes that in its review of TFP, the AEMC found that TFP would provide more inbuilt incentives to undertake demand management compared to the building block approach because it provides an incentive to utilise assets well. The AEMC noted that has the effect of encouraging the service provider to undertake demand management activity prior to the construction of new assets.⁴ DPI is supportive of the AEMC's findings and would like a TFP regime to be implemented as soon as possible.</p> <p>DPI supports this recommendation.</p>
	<p>A two-part approach is adopted to address the issue of business profits being dependent upon actual volumes. This includes improvements to the pricing principles to guide network tariff structures and secondly, to include an allowance for foregone revenue under the DSP incentive scheme.</p> <p>A number of minor changes are made to the rules to provide clarity and flexibility for how the AER treats networks' DSP expenditure.</p> <p>We consider that SCER should, in developing a national approach to feed in tariffs (FIT), take into account the value of time varying feed in tariffs to encourage owners of DG to maximise the export of their energy during peak demand periods</p>	<p>DPI supports this recommendation.</p> <p>DPI notes that stakeholders to the AEMC's Directions Papers propose different types of designs for FIT arrangements. Victoria's existing FIT schemes are net metered. Current minimum metering specifications under Victoria's advanced metering infrastructure program provide for net metering, and therefore a change to gross metering could also be prohibitive in some distribution areas. Therefore, for customers currently receiving the Premium or Transitional FIT, the cost of a change to gross metering may result in additional costs.</p>
ENERGY EFFICIENCY MEASURES AND POLICIES		
Energy efficiency measures and policies	There is better coordination of energy efficiency and DSP policy and measures.	DPI agrees with this statement. The key approach to achieving improved coordination is improving customer information in relation to energy efficiency and DSP.

⁴ AEMC, *Final Report - Review into the use of total factor productivity for the determination of prices and revenues*, <http://www.aemc.gov.au/market-reviews/completed/review-into-the-use-of-total-factor-productivity-for-the-determination-of-prices-and-revenues.html>, 30 June 2011.

<p>Any regulatory schemes relating to energy efficiency need to address the secondary impacts that they are likely to have on the electricity market and its participants.</p>		<p>DPI agrees with this recommendation, and notes that the findings of the OakleyGreenwood (OGW) Stage 2 Final Report highlights the importance of carefully assessing secondary impacts of energy efficiency programs.</p> <p>The OGW report states that each of the three state based energy efficiency obligation programs have had a modest downward pressure on average wholesale electricity prices, but that the administration costs of such schemes tends to increase customer electricity charges. The OGW report suggests such increases are a detriment to customers who do not participate in the scheme and therefore not receiving the benefits (obtained by participating customers) of reduced consumption. By way of contrast, modelling undertaken by ACIL Tasman in support of the 2011 Regulatory Impact Statement into the extension of the Victorian Energy Efficiency Target (VEET) concluded that the downward pressure on wholesale prices as a result of the VEET scheme benefits all customers - whether they are participating in the scheme or not.⁵ This is because the suppression in wholesale prices due to reduced demand entirely off-sets the administration charges that may be passed on to customers who are not participating.</p> <p>If energy efficiency schemes have appropriate settings, the upfront costs associated with the scheme should be balanced against the likely market impacts. This strengthens the case that careful cost benefit analysis should be undertaken in assessing these schemes.</p> <p>DPI agrees with this recommendation. The impact of energy efficiency schemes such as VEET on demand is hard to assess. Increasing the availability and reliability of this data will assist in evaluating the effectiveness of such schemes.</p>
<p>There is better reporting and more publicly available data on the load shape impacts of energy efficiency measures on both peak and average electricity demand.</p>		

⁵ ACIL Tasman, *Energy market modelling – expansion of the ESI scheme*, http://www.dpi.vic.gov.au/data/assets/pdf_file/0010/97462/ACIL-Tasman-report.pdf 21 February 2011

