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

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


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

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Mark Feather
Executive Director
Energy Sector Development

26/10/12

For more information about DPI visit the website at www.dpi.vic.gov.au or call the Customer Service Centre on 136 186
Whether the baseline method may otherwise disadvantage some consumers is equally important to the market, so it should be considered.

The baseline method is more suited to those consumers that have a consistent demand profile than those that don't. Demand responses from households of different types of consumers

under the mechanism should be carefully set. In this respect, the magnitude of baseline adjustment allowable is an important factor in the consideration. A longer time period will reduce the cost to a demand response provider of artificially increasing the baseline. Therefore, the length of time over which the baseline is set is a key consideration. The length of the demand response provider's planning horizon is crucial. The demand response provider must estimate the real demand in order to increase their baseline and baseline adjustment. This would result in increasing the overall demand for a more flexible mechanism. For example, if sufficiently high wholesale prices are anticipated, the baseline method should be designed to avoid potential gaming of the mechanism.

Further, participation of electricity consumers in the wholesale electricity market, their financial viability and security of supply, and their ability to act as a price taker are critical. The proposal to continue with the current arrangements for gaming price signals would be unacceptable. The proposal is to change the assumptions on which the current arrangements are based. The proposal to continue with the current arrangements would be unacceptable.

The proposal for this change to reduce the wholesale price will depend on the proposal's success in the wholesale market (DSF) in the demand side participation. Under this mechanism, consumers are required to continue with the current arrangements. The Australian Energy Market Commission (AEMC) proposes to continue with the current arrangements. The proposal is that the current arrangements for gaming price signals would be unacceptable.
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.

Creating 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.

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.

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.

Efficient and flexible pricing options

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.

Victoria has considered this matter as part of its planned introduction of flexible pricing.

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.

DPI believes that all residential customers should be provided with choice regarding whether or not they should be on a flexible network tariff.

Government programs target advice and assistance to these consumers to help manage their consumption.

The AEMC should make it clear in its Final Report whether it recommends that jurisdictional governments or the Commonwealth government should be
as larger families.

greater support is provided to households who require more electricity such
size of properties. By providing electricity concessions as a percentage of the total
provides the same level of discount to each customer regardless of household
in a deserving electricity market. A proportional concession is equitable as it
and is responsive to changes in retail structure and household electricity prices
admission from 1 July 2012 for the Commonwealth Carbon Price Competition
concession for low-income and vulnerable Victorians. The Annual Electricity
concession provided by electricity bills for the whole year with an
provides an unadjusted, proportional

concessions.

DfP notes that State Governments are responsible for determining energy

emissions under national law.

The results of this campaign could inform the development of any information

will increase in intensity and it gets closer to the introduction of flexible pricing.

will increase the flexibility and how they can respond to the introduction of flexible

will continue to provide customers with clear information so they understand

Introduction of flexible pricing is supported by the switch of Commonwealth

information regarding Victoria’s Energy Save Incentives scheme. Following the

around for the best energy retailer in addition, it provides customers with

energy solutions, an increased energy efficiency house and advice on shopping

smart metering, an increased energy efficiency house and advice on shopping

new Switch on websites and associated campaigns.

As Victoria is ahead of other jurisdictions in rolling out smart meters, Victoria

responsible for this advice.
The transition to more efficient and flexible price options in the NEM should be done in a gradual phased approach.

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.

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.

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).

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.

DPI notes that transitional arrangements for retail tariffs have been considered in detail by the National Smart Meter Consumer Protections Papers.

Segmenting residential and small business consumers into three different consumption bands and applying time varying network tariffs in different ways:

- 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

DPI agrees with the AEMC's approach in applying different flexible pricing regulatory arrangements to different categories of customers.

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.

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
of its customer impact study into flexible pricing and is consistent with the Victorian Government’s approach to the introduction of network flexible pricing.

As a result, DPI recommends that the final recommendations provide for all residential customers to be able to opt-in to network flexible tariffs.

DPI also noted 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.

Related to the above point, DPI notes that there is no discussion of what this support entails, or any discussion of who is responsible for providing it. DPI would like to see this considered further in the Final Report.

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 they can remain on a flat tariff option.

DPI notes that there may be a need to distinguish between different load profiles when making tariff offerings. At the moment, DPI understands many of the retailers struggle to distinguish between different load profiles in their systems (for example, load profiles 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 load profiles. The available codes are not necessarily set up against all different types and offerings.
<table>
<thead>
<tr>
<th>Better education and information on the impacts of transitioning to more time varying retail prices.</th>
<th>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.</th>
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<tbody>
<tr>
<td>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.</td>
<td>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.</td>
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<tr>
<td><strong>Settlement</strong></td>
<td>DPI supports this recommendation.</td>
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<td>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.</td>
<td>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.</td>
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<tr>
<td><strong>Enabling Technology</strong></td>
<td>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...</td>
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<tr>
<td>Service Provider</td>
<td>D2P would like the AEMC to further consider the risks and issues that may arise.</td>
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**Table:**

- **Service Provider:** Small business consumers by any approved measure.
- **D2P would like the AEMC to further consider the risks and issues that may arise:**
  - Examples on retail competition.
  - In the absence of flexibility, there could be unintended consequences for the framework. These may be less than commercial, regulatory, and technical.
  - The framework must be able to accommodate customers with high peak usage levels. It may have fewer customers to obtain smart meter information. These are clear benefits available to them, for example:
  - D2P notes that initially many customers will not arrange for a new meter.

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**Conclusion:**

- Under D2P, D2P supports the current minimum specifications approved by the SCER. This recommendation may create the need for the installation of meters consistent with the proposed minimum multi-family specifications.
| Facilitating consumer access to electricity consumption information | [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. | 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. 

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. 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. 

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. |

[Changes be made to] Chapter 7 of the NER to require, at a minimum, a retailer to provide residential and small businesses consumers with | 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 than DSP. 

- The treatment of customers that do not have a smart meter (including the pricing arrangements for these customers). |

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<table>
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<tr>
<th>Distribution Network Incentives and Distributed Generation</th>
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<tr>
<td><strong>DPF</strong> agrees with this recommendation.</td>
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<td>The NER and NEFC are required to outline the role of parties to engage in wholesale and local power.</td>
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<tr>
<td><strong>Smart Meter Consumer Protection Provisions.</strong></td>
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<td>DPF notes that these have been considered in greater detail by the National Consumer Council.</td>
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**Note:** The table is a representation of the document content, attempting to maintain the structure and context as described in the raw text. The table is formatted to align with the natural reading direction and provide a clear view of the information presented.
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<tr>
<th>Principles and two mechanisms for how this could be achieved.</th>
<th>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. DPI is supportive of the AEMC’s findings and would like a TFP regime to be implemented as soon as possible.</th>
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<tr>
<td>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.</td>
<td>DPI supports this recommendation.</td>
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<td>A number of minor changes are made to the rules to provide clarity and flexibility for how the AER treats networks’ DSP expenditure.</td>
<td>DPI supports this recommendation.</td>
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<td>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</td>
<td>DPI notes that stakeholders to the AEMC’s Directions Papers propose different types of designs for FIT arrangements. Victoria’s existing FIT schemes are not 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.</td>
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**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. |

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This page contains text that is largely illegible due to the quality of the image. However, it appears to be discussing the impact of energy efficiency programs and the need to address the secondary impacts that they entail. The text is fragmented and difficult to comprehend in its current state.