Power of choice review
Public Forum - Directions paper

19 April 2012
Marriott Hotel, Sydney

AUSTRALIAN ENERGY MARKET COMMISSION
Introduction and context

Dr Brian Spalding – AEMC Commissioner
Purpose of today

- Provide snapshot overview of where we are at with the review
- Our thinking on priority issues and areas for reform
- Engage and obtain views from stakeholders on directions paper outcomes
- Feedback on possible solutions and potential changes to market and regulatory arrangements
- Forum builds on ongoing stakeholder consultation
- Submissions to directions paper close on 4 May 2012
The review

- MCE directed review – builds on previous studies and reforms

- Purpose is to:
  - identify opportunities for consumers to make informed choices about the way they use electricity; and
  - provide incentives for network operators, retailers and other parties to facilitate and respond to consumer choices.

- Seeks to ensure that lowest cost combination of DSP and supply options is used to meet consumers’ demand for electricity services in the long term.
Opportunities for change

Why are we doing the review?

- To ensure that the market identifies and captures the opportunities to maximise efficient use of DSP
- Peak demand increasing relative to average demand
- New investment needed to service demand
- Ernst and Young estimated that targeting the top 1% of “peaks” from overall demand in each year:
  - Indicative value of between $3bn and $11bn of network costs could be avoided over the next twenty years
Opportunities for change

• Directions paper – market conditions and issues covered.
Opportunities for change

• Four umbrella areas to progress

• Range of issues under each of these groups

• There are links and interactions between issues and solutions – need to be considered collectively

• Seeking stakeholder responses on what are the options for change across each area
Next phase of the review

- Directions paper - first stage to consider potential options for reform
- Options will be assessed against overall objective of review and NEO
- Materiality of issue will also be considered
- The draft recommendations will propose what changes are needed to existing market and regulatory arrangements
- Draft report – end June 2012
- Public forum (draft report) – July 2012
- Final report and implementation plan to SCER – Sept 2012
Session 1: Consumer participation

Ms Lisa Nardi – Senior Advisor, AEMC
Directions paper findings

Consumer choice and participation

• Education

• Information

• Engagement
Directions paper findings – way forward

- Timely access to usage data
- Role of parties across the supply chain engaging with consumers
- Meter provision
- Information on DSP capability
- Opportunities to participate in wholesale market by third parties

Options in scope for improving data access and information

- Improve clarity of rules (e.g. 7.7a)
- Information hub and service provider
Stakeholder presentations

• **Mr David Stanford** – Policy Officer, Consumer Utility Advocacy Centre (Vic)

• **Mr Phillip Watts** – Group Procurement Manager - Energy, Boral
Session 2:
Distribution network incentives

Mr Eamonn Corrigan – Director, AEMC
Directions paper findings

Networks play an important role in DSP through:

- developing own DSP products
- purchasing DSP
- facilitating DSP (e.g. distributed generation)

Networks increasing their focus on DSP (e.g. trials, network planning)
Example - St Ives substation 2011/12

5 hours above feeders design level forecasted. 1,900 MVA needs to be removed.
Example - St Ives substation, Sydney 2011/12

Issue is winter peak due to residential loads between 5.30pm and 8.30pm

Most cost effective solution was relocatable generators
## Directions paper findings

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<tr>
<th>Issue</th>
<th>Finding</th>
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<tr>
<td>Profit incentives on network incentives</td>
<td>Current arrangements may fail to provide right incentives for DSP compared to capital investment</td>
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<td>Inclusion of demand management into the network planning process</td>
<td>New arrangements being introduced through the Distribution Network Planning Rule Change (due Sept 2012)</td>
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<td>Reliability obligations and service incentives</td>
<td>May need to explore possible temporary exemption to service incentives schemes to help develop DSP market</td>
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<td>Network business role in engaging with consumers</td>
<td>Need to consider further as part of consumer engagement framework</td>
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Directions paper findings – way forward

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<th>Issue with economic regulation arrangements</th>
<th>Options to consider</th>
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| Balance between operating and capital expenditure | • New principle in Rules – “Any expenditure relating to capital assets either on investment or avoiding/deferring investment must be treated the same”
• Equalisation incentive scheme (Ofgem)
• More certainty on treatment of DSP expenditure at next regulatory re-set (i.e. transmission) |
| Misalignment between business profit and cost differences | • Longer retention periods for capex savings
• Ability to seek to increase allowed revenue during periods |
| Profits linked to volumes | • Incentives on networks to price at efficient cost
• Decoupling |
Stakeholder presentations

- Mr George Maltabarow – Managing Director, Ausgrid
- Mr Alistair Parker - Director Regulation and Network Strategy, SP AusNet
- Mr Mendo Kundevski - Policy Manager, Property Council of Australia
Session 3:
Role of price signals/technology

Mr Ben Woodside – Senior Economist, AEMC
Directions paper findings – price signals

• What are cost-reflective prices?
• How can the market offer the benefits to consumers?
• How can all consumers benefit?
Directions paper - network costs

- Some network tariffs are flat; others appear to broadly reflect costs:
  - Why the difference?
    - Interval meters (so why not install them?)
    - Pricing rules?
    - Incentives in regulatory arrangements?

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<tr>
<th>Interval</th>
<th>Accumulation</th>
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<td>12%</td>
<td>88%</td>
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Directions paper - retail prices

Substation daily demand profile

Typical retail tariff

Relative hourly prices in the NEM

1Bellerive substation (Aurora network)
Directions paper - impact of time-sensitive tariffs

- How can we facilitate a response?
- What support is needed for the 20%?
Stakeholder presentations

- **Professor Paul Simshauser** - Chief Economist & Group Head of Corporate Affairs, AGL

- **Peter Casey** – Manager, Energy Conservation & Demand Management Strategy, Energex

- **Mr Gavin Dufty** – Manager, Policy and Research, St Vincent de Paul Society (Vic)
Session 4: Supply chain interactions

Mr Eamonn Corrigan – AEMC
Directions paper findings

• DSP can have multiple impacts – costs and benefits – along the various participants along the electricity supply chain

• How does the supply chain work in a collective, co-ordinated manner to identify and capture efficient DSP projects?
Direction paper findings

- Uncertainty about how to value and quantify the impacts of a DSP project
- Market participants may have different commercial drivers and interests may not aligned with facilitating efficient DSP project
- Some parties may be benefiting from a DSP project without contributing to the costs – *free rider*
- Networks and retailers may develop different business cases - *split incentives*

*Leading to:*

- Consumer not being offered the full value of its decision to change its consumption pattern
Directions paper findings – way forward

- Is it difficult for a consumer/demand response aggregator to negotiate with both a DNSP and retailer at the same time?

- What are the opportunities for both a retailer and DNSP to come together and work jointly to capture value of DSP?

- Appropriate approaches to value the costs and benefits of DSP?

- Would cost reflective price signals (which correctly value DSP action) overcome this disaggregated supply chain problem?

- Contractual arrangements, or

- Is there a need for a regulatory solution (i.e., single purchaser)?
Stakeholder presentations

- **Dr Paul Troughton** – Manager, Australian and New Zealand Operations, EnerNOC

- **Mr James Bondio** - Manager Alternative Energy Solutions, Asset Management Division, Ergon Energy

- **Mr Grant Raja** – Business Development Manager Energy and Utilities, Honeywell Building Solutions