

## Power of choice review – update

The Power of Choice review is exploring what changes can be made to the electricity market so that consumers can make informed choices about the way they use electricity. The review is also looking at ways to encourage electricity generators, retailers, and other parties to invest more efficiently so energy services can be delivered in a cost effective way. More information about the review can be found [here](#).

On 21 December 2011, AEMC published three consultants that form background information and help to inform the Commission's<sup>1</sup> considerations and analysis of issues for the review. The information provided in the reports will also be input to the development of the review directions paper, to be published in [early February 2012].

The directions paper will outline our views on the market conditions needed across the supply chain and directions on changes that might be required to market and regulatory arrangements to enable both supply and demand side options in achieving an economically efficient demand/supply balance in the electricity market.

The consultant reports relate to:

- the opportunities for demand side participation (DSP) given the current nature of electricity use in the market
- a stocktake and analysis of current DSP options available based on existing DSP and pilots and trails occurring across the market, and
- investigations of efficiency of current price signals in the NEM.

A summary of each report is provided below. The full reports can be accessed at the [Power of choice webpage](#).

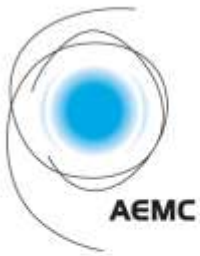
### Rationale and drivers for DSP in the electricity market – demand and supply of electricity (Ernst and Young)

Cost effective DSP can offer opportunities across the electricity supply chain for generators through to consumers. To inform our assessment of opportunities for DSP in the NEM, we engaged Ernst & Young (EY) to explore DSP issues on the demand and supply side of the electricity market — focussing specifically on the drivers of electricity demand in the NEM and the nature of current and future electricity infrastructure investment.

The EY report presents analysis involving historical data and demand projections for industrial, commercial and household sectors across the five NEM regions up to 2030 and looks at the relationship of various drivers of peak demand and energy consumption. The report couples this analysis with projected regional investment requirements and outlines the potential for DSP in the future, particularly as a mechanism to address peak demand growth in the future.

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<sup>1</sup> Note: the information provided in the reports does not necessarily reflect the views of the Commission.



## Investigation of existing and plausible future demand side participation in the NEM (Futura consulting)

For the review, we are considering the actions that are available to consumer, or third parties to reduce or manage their electricity use. Such actions can include shifting consumption from peak times, or purchasing more energy efficient appliances/equipment.

The report by Futura investigates and outlines the suite of existing and potential foreseeable DSP options that are or may be available for consumers and third parties.

There has been some take up of DSP in the NEM to date. However some DSP is still being trialled by various parties in the market. The report by Futura seeks to provide a stocktake of those existing and planned pilots and trials, with an outline of some of the lessons learned from these programs. The report also provides some assessment based on the above, of the range of likely market conditions needed to facilitate uptake of cost effective DSP options in the NEM.

## Investigation of the efficient operation of price signals in the NEM (PwC)

Prices (among other factors) can play an important role in signalling to consumers (or other parties on their behalf) when and how they can benefit from shifting or reducing their electricity consumption.

In accordance with the SCER terms of reference for the review, we engaged PwC to examine the efficient operation of price signals in the NEM, particularly their potential to promote efficient consumer demand-side participation by enhancing the consumers' ability and incentive to make informed choices concerning their use of electricity.

The report identifies the existing costs that are incurred in the provision of electricity services and the implications this has for the setting of efficient prices. PwC also analyse the efficiency of various existing pricing structures, including the structure of network tariffs and of retail market offers and regulated tariffs in the NEM. The report considers market conditions that can influence the incentive and ability for efficient prices to be set as well as the capacity for consumers to respond efficiently to those prices.

The report finds that the majority of consumers are unlikely to face a price that reflects the costs of supplying electricity, largely because most residential and small business consumers do not have interval meters, which measure consumption on an hourly or half-hourly basis. PwC find that a movement towards prices that vary over time (and location) on the basis of changes in costs of supply can be welfare improving where the efficiency benefits exceed the costs associated with facilitating such pricing, such as the costs of technology.

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