



04 May 2012

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

Dear Mr Pierce,

Power of choice – giving consumers options in the way they use electricity

Alinta Energy welcomes the opportunity to make a submission to the latest phase of the Australian Energy Market Commission's work program on demand-side participation. Alinta Energy notes the comprehensive report entitled *Power of choice – giving consumers options in the way they use electricity* (the Directions Paper).

Alinta Energy agrees that there is scope for potential benefits for consumers and the market from the development of demand-side participation. In this regard, the Directions Paper is comprehensive in its scope and has clearly identified a number of important themes regarding the role of pricing, consumer participation, supply chain engagement and networks.

However, Alinta Energy remains concerned that the issue of demand-side participation continues to be pursued despite an absence of evidence that market participant failure is the reason there are limited demand-side solutions under current conditions. Importantly, the Directions Paper identifies that demand-side participation options already exist in the market in some circumstances.

Additionally, the issue of demand-side participation and energy efficiency is being progressed by the Australian Energy Market Commission, the Department of Energy, Resources and Tourism through the Energy White Paper process, the Department of Climate Change and Energy Efficiency through the national energy savings initiative, the Productivity Commission as part of its existing review of energy networks, and is encouraged by a range of schemes including the *Energy Efficiency Opportunities Act 2006* which has a questionable impact.

On this basis, and without detracting from the detailed work undertaken by the Australian Energy Market Commission, there are a number of specific observations about the ongoing policy and regulatory focus on demand-side participation and energy efficiency that are worth stating.

- **The analysis of demand-side participation and energy efficiency is largely underwritten by the unsubstantiated belief that significant demand reductions are possible** - this has been the case for the past decade in which there have been numerous and extensive reviews and discussions regarding the potential for demand-side response and growth in energy efficiency outcomes with little progress.

- **Benefits of demand-side participation are largely unquantifiable and untested** - the Directions Paper extensively identifies the suite of benefits that in theory could apply in the short and long-term; however, it correctly identifies that the benefits of demand-side participation are difficult to quantify. Alinta Energy suggests this is important to acknowledge and that the case for demand-side participation needs to be stated in the context of readily identifiable savings not assumption that may not be realised.
- **Consumers value the ability to readily consume energy to support their quality of life and hence scope for reduced consumption is limited** - consumers value the flexibility to control their energy consumption and Alinta Energy supports consumers' rights to enjoy the quality of life they derive from readily available energy in all its forms. While Alinta Energy supports a greater emphasis on increased competition and efforts to make energy more affordable we do not believe that a lack of regulatory intervention is the reason for an absence of demand-side participation. Additionally we hold the firm view that further regulatory intervention will only continue to stifle investment and innovation.
- **Enhancing opportunities for energy market competition is the best way of pursuing consumption changes** - Alinta Energy shares the general concern about growing energy prices through out numerous stages of the supply chain, and considers it Alinta Energy's challenge to make energy more affordable, however Alinta is not convinced that a potential blanket reduction in energy consumption by residential consumers is of itself a sign of progress. Instead, changing consumption patterns away from peak price periods is far more viable under the right circumstances.
- **Cost-reflective, time-of-use pricing, whilst not mandatory, is a necessary driver of demand-side participation and changed consumption patterns** –consumers can be incentivised and where they have the capacity to, will shift consumption to off-peak periods and reduce energy costs if exposed to appropriate price signals.
- **The market can offer products to influence consumption patters where there is certainty** – regulatory interventions are not required to drive demand-side participation, in fact the opposite, regulatory intervention will only continue to stifle investment and innovation. The policy and regulatory uncertainty that energy markets have been, and continue to be, exposed to curb retailers' incentives to confidently engage with consumers to provide for market driven demand-side initiatives. Hence, regulatory intervention in this area should be focussed on the regulated aspects of the industry and not further distorting the existing market structure.
- **Network regulation is an area where appropriate attention may be required** – the cost effectiveness of network pricing and high fixed costs is something that must be considered given this segment accounts for in excess of 50% of the supply chain and is dominated by monopoly businesses.
- **Energy efficiency measures are expensive to operate and administer** – energy efficiency is a normal part of business operation and is not materially enhanced, when compared with the significant regulatory reporting and compliance cost, associated with the existing plethora of energy efficiency schemes/measures currently operating across Australia. Energy efficiency measures and demand-side participation are potential poorly linked.

Alinta Energy is concerned with the growing expectation that demand-side participation is an essential market outcome and does not believe there is a strong case that market participants or consumers will benefit from further regulatory schemes or mechanisms given the history of the past decade in this area.

Alinta Energy believes a fundamental role of price signals across the supply chain and provision of information, including for end use customers, should be the critical feature of any further assessment of demand-side response if meaningful progress is desired.

As it pertains to the Directions Paper Alinta Energy has a number of specific issues to address.

- Information regarding consumption is important and Alinta Energy supports the use of information to review consumption. That said; there is sufficient scope within the market for this to occur without mandating a role for information service providers. Alinta Energy holds the view that retailers are best placed to assist consumers manage consumption given the already complicated nature of consumer engagement. The market is not suffering from a lack of will on the part of retailers to better manage peak demand but rather an absence of a settled market environment and poor retail price settings. The outcomes for smart meters in Victoria are instructive.
- Billing cycles should be, all other factors being taken into account, at the consumers discretion based on the offerings of retailers. Therefore, instead of mandating billing cycles, consumers should be able to opt for shorter billing cycles where retailers offer such.
- Alinta Energy supports further investigation of cost-reflective pricing in network charges but is concerned that the breakdown of multiple components outlined in the Directions Paper may further complicate consumers' ability to obtain useable information on electricity consumption. The purpose of additional information and cost-reflective pricing is to empower consumers and incentivise competition by improving consumer product offerings. It is not clear that this is straight-forward as it relates to networks.
- Moving forward Alinta Energy supports the next stage of the review considering the impact of time sensitive tariffs on different types of consumers and any additional protections for vulnerable consumers. Such an analysis should be complimented by an analysis of the ability of market participants to offer products which meet consumers' demands, but also clarification of what these demands actually are and how they have been identified in the absence of cost-reflective pricing.
- The issues surrounding demand-side and retail pricing inflexibility are an essential component of the forward work programme. Alinta Energy's initial view is that demand-side participation will not reach efficient levels without cost-reflective pricing.
- Alinta Energy supports a detailed review of smart meter services as part of the forward work program and notes the incentives around installation are mixed in the current environment for distribution businesses and are difficult to capture in the absence of cost-reflective prices for retailers.
- Alinta Energy does not support additional information obligations being placed on market participants regarding demand-side participation capability.
- Alinta Energy does not support any further analysis of significant market reform, like the introduction of a day-ahead market, given the wider inefficiencies and uncertainties this would and does create.
- There is some confusion with the papers significant focus on retail markets when the industrial and commercial sector consumes the bulk of generated electricity and those commercial and industrial customers already have enough incentives to deliver demand-side response where it matches their financial interests.
- Alinta Energy supports the current process for determining wholesale market settings.
- Alinta Energy is not comfortable with growing the relationship between distribution companies and customers as it confuses the relationship of monopoly businesses with those that are market orientated. Distribution network incursions into the retailer / customer

relationship are likely to be impractical and detract from the market overall. Likewise where distribution companies, or third party suppliers of demand management services seek to directly engage with end use customers they must be subject to the same regulatory, compliance and customer protection regime as that of retailers.

- Alinta Energy remains concerned with the number and scope of energy efficiency programs currently in existence and does not believe consumers have a strong appetite for either these programs or demand-side in the current environment.

If you have any queries in relation to this submission please do not hesitate to contact me, telephone, (02) 9372 2633 or Mr Shaun Ruddy, Manager, National Retail Regulation, telephone, (02) 9372 2653.

Yours sincerely,



Jamie Lowe
Manager, Market Regulation