

Mr John Pierce
Chairman
Australian Energy Market Commission
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By email: aemc@aemc.gov.au

4 May 2012

Dear Mr Pierce

Power of Choice Directions Paper

This submission is made by the Private Generators listed in the side-bar. It should be read in conjunction with submissions made by the individual businesses.

This informal group of private businesses have substantial electricity generation assets in their portfolios. The group deals with common issues related to the National Electricity Market, environment (including climate change) and work, health and safety.

Demand side response is an integral component of efficient markets. That is, it facilitates the market achieving an efficient equilibrium where the allocation of goods and services is optimised.

In the case of the National Electricity Market, demand side response in the short to medium term has been limited for a number of reasons. These include the inelasticity of demand, the lack of price transparency for non contestable customers and the lack of viable alternatives to supply.

The inelasticity of demand is a significant issue as all consumers (industry, businesses and residential) rely on electricity at specific points in time and in specific quantities. Accordingly, changing consumption patterns in order to deliver an effective demand side response will likely take time.

However, we have seen the market change in response to higher prices. For example, current NEM demand is up to 4% below 2008 and 2009 demand levels which can be partially attributed to consumers reacting to the increased price signals.

After reviewing the Directions Paper, we consider that the following actions could, if implemented, improve demand side participation in the NEM:

- Retail electricity prices should be deregulated in order to allow for consumers to be exposed to efficient prices.
- Cost-reflective pricing should be introduced as it will improve demand side participation from residential customers.
- The implementation of cost reflective pricing will require investment in technology with which retailers and consumers could interact.

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- The variable component of network pricing could be reduced and a cost reflective demand component introduced.
- The implementation of a price on greenhouse gas emissions, if allowed to flow through to consumers, will elicit behavioural change including reductions in end use energy consumption.
- Pricing transparency and the connection between consumer usage and customer costs needs to be improved.
- Governments should seek to redress distortions to effective price signalling that arise from subsidies levied on retail bills, for example feed-in tariff schemes.
- The cost of using networks should form part of customer decision making. To this end, there is scope for a greater role for peak capacity charging in network cost recovery.
- Any changes in the area of network cost recovery and moves toward cost reflective pricing must be accompanied by a significant public education campaign. This will ensure consumers are aware of the reasons for change and, more importantly, the benefits of change.

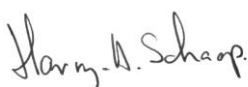
We consider that the following points should not be pursued in seeking to improve the demand side response:

- Additional, mandated, energy efficiency schemes, including those involving white certificate schemes should not be implemented. In fact, following the introduction of the carbon price mechanism, all energy-related measures failing to meet the COAG agreed complementarity principles should be abolished.
- Any specific recommendations to improve demand side participation should be technologically neutral so that no additional distortions in the energy market or to the investment climate are created.
- Demand side measures must not give demand response or distributed generation preferential treatment over conventional generation. Demand side participation should not receive any additional payments to conventional generation.
- Privacy provisions between consumers and retailers should be respected and consumer information should not be made available to outside service providers.

In conclusion, we appreciate the opportunity to comment on the Directions Paper and we consider that the market would benefit from greater price transparency where such transparency does not currently exist and, finally, that additional measures are not needed in order to increase demand participation.

For further information or discussion, please contact myself by email (Harry.Schaap@tpq.com.au) or telephone (03 9499 4249 or 0413 623 043).

Yours sincerely



Dr Harry Schaap
(on behalf of the listed generators)