

STRATEGIC PRIORITIES FOR ENERGY MARKET DEVELOPMENT

A DISCUSSION PAPER FROM THE AEMC

A submission from a consumer perspective.

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This brief submission has been prepared by Andrew Nance as end-use customer representative on the Australian Energy Market Commission's Reliability Panel.

This Discussion Paper is a welcome piece of engagement by the AEMC on issues confronting the market, however time does not permit a detailed response to all of the matters canvassed in the paper.

Objectives

At page 12, the paper refers to 'Achieving the market objectives'.

"As explained above, our rule-making functions and the provision of advice to the MCE is within the context of an objective that can be broadly summarised as promoting the economic efficiency of energy markets over the long term. In order to achieve the objectives for the gas and electricity markets, it is important that we have a clear view as to the type of characteristics which would be exhibited by markets meeting this objective.

Economic efficiency can be broadly defined as promoting and making the most productive use of the available resources."

The market objectives are spelled out in the National Electricity Law and National Gas Law. The National Electricity Objective (NEO) is:

to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to –

- 1. price, quality, safety, reliability, and security of supply of electricity; and*
- 2. the reliability, safety and security of the national electricity system.*

It has been, and no doubt will continue to be, argued that an 'economically efficient' market is exactly what is in the long term interest of consumers. Clearly the history of the single market objective (back to early consultation and the South Australian Energy Minister's NEL second reading speech) is for it to be interpreted as an economic concept. However, it is a concern that the paper does not present, discuss or analyse the legislated market objectives.

It is difficult not to see this as reflective of a 'top down' perspective of the energy value chain. However, the NEO and NGO imply a 'bottom up' approach – starting with the consumer interest and working back up the value chain to shape the rules for retail, distribution, transmission and generation in the achievement of the objectives.

It is an observation, shared by many peers, that the AEMC is seen as largely operating with a focus on the interactions between Market Participants and does not expose itself to any great degree to the market's end-users. The Strategic Directions Paper does little to dispel this view.

So, as a critique of the strategic priorities discussion paper, it is disappointing to the extent that it doesn't explicitly identify strategic issues from a consumer perspective (or present a structure or process that would).

Capacity and Consumption

The repeated reference to peak demand in the paper is welcomed as it has been apparent in the South Australian region for at least a decade that the divergent growth rates of maximum demand and annual consumption (MW vs MWh) is a significant driver of higher prices for consumers, particularly small consumers. It is now becoming more evident in other jurisdictions.

In terms of strategic directions (i.e. big picture, pervasive matters) it was hoped that more page space would have been given to a discussion on capacity vs consumption. As an underlying aspect of many of the challenges, issues and directions it warranted a more 'strategic' discussion in its own right. It should be possible to do this without interpreting this as suggesting a failure of the 'energy only' market design. It underpins 'reliability' and 'security' in the market – from all perspectives: consumers and market participants.

Gentailers

The other strategic issue that appears repeatedly but is not afforded a dedicated analysis is that of the reintegration of retail and generation. This is a critical evolution of the market that *could* be in the long term interests of consumers.