



20 February 2009

Australian Energy market Commission
AEMC Submissions
PO Box A2449
Sydney NSW, 1235

Via email to
submissions@aemc.gov.au

Australian Energy Market Commission- review of energy market design in light of CPRS and RET:
1st interim report. Reference EMO 0001.

The Financial and Consumer Rights Council (FCRC) is the peak body for Financial Counsellors in Victoria and has been in operation for over ten years. The FCRC consists of approximately 160 member Financial Counsellors which are mostly funded by the Victorian state government, as well as the federal government.

The FCRC convenes a number of working groups that focus on specific areas of financial counselling practice, one of which is the Utilities Working Group (UWG). The UWG has recently been heavily focussed on issues surrounding national regulation and climate change, and specifically the impacts on vulnerable consumers.

Introduction

FCRC UWG welcomes the opportunity to respond to the Australian Energy Market Commission's review of energy market design in light of CPRS and RET: 1st interim report. This brief response raises concerns regarding market design and the impact of CPRS and RET on low income consumers. We are concerned about the narrow focus of the paper on market frameworks without a similar focus on how those frameworks will shape social policy. Working on one part and not the other cannot deliver an integrated approach that will be in the best interests of all consumers and in particular low income consumers.

We note that AEMC's Vision is to promote efficient, reliable and competitive energy markets in the interests of all Australians. And its objective for electricity and gas markets to deliver safe, secure, reliable and efficient supplies in the long term interests of consumers. In the MCE terms of reference the MCE.....recognises the prudence and potential value of reviewing the ability of the energy markets to meet the climate change challenge, through efficient and timely investment and appropriate integration of renewable and other technologies. We strongly support the integration of renewable and other technologies in an increasingly decentralised model that includes greater uptake of energy efficiency.

Impact of the Carbon Pollution Reduction Scheme

The structure of the proposed CPRS and whether it should proceed or not is outside the scope of the AEMC's review of energy market design in light of CPRS and RET: 1st interim report but as CPRS will affect energy market framework it is worth noting that there are serious flaws with its structure. CPRS imposes a cost on carbon and since electricity producers are significant polluters they have to purchase permits that in theory are to reduce their emissions. The Green Paper and Garnaut review have set the framework for CPRS but the free permits, weak targets and perceived weak leadership by the federal government may result in increased prices for consumers with little or no effect on bringing carbon pollution down. If carbon pollution is not brought down Australians face more extreme events like the devastating bushfires that wiped out whole communities in Victoria. It is no time for weak leadership but a time for decisive action.

Energy efficiency

Energy efficiency has the potential to reduce greenhouse gas emissions as well as make energy more affordable for consumers. The architecture of the CPRS energy efficiency has the perverse effect of reducing demand but not reducing carbon emissions. It allows electricity generators to sell elsewhere any capacity saved through energy efficiency, up to its given target allocation. Energy efficiency has been proven to reduce electricity demand in California through an integrated approach of enforcing energy efficiency standards on buildings and appliances as well as providing consumers with energy efficiency choices and information. A similar result can be achieved in Australia. What is needed is strong building regulations for new and existing housing stock, strong regulations on appliance standards so inefficient appliances are either not allowed entry to the market or priced higher than energy efficient appliances. Obligations to provide energy efficient information free of charge especially to low income consumers needs to be mandated across Australia. Energy efficiency is relatively cheap, quick and simple to implement but need to include changes to housing appliance and behaviour and be measurable to have an effect. An integrated strategy of implementing energy efficiency needs to be part of an overall government approach both to climate change as well as energy market framework response as consumer consumption plays a vital role in shaping the structure of the energy market.

Connection of new generators to energy networks

The Renewable Energy Target (RET) can strengthen energy infrastructure, reduce carbon pollution and allow Australians to be more self sufficient if an appropriate model is adopted. In light of an already changing electricity market AEMC' needs to consider a new paradigm for the future. We will be reliant on centralised carbon polluting electricity generation in the future the question is will it be the model of our long or short term future. Even without the pending CPRS we have ageing infrastructure. Capacity constraints in a time of critical demand, as was demonstrated a few weeks ago in Victoria and South Australia, were caused (mostly) by an unreliable centralised electricity system unchanged in electricity delivery from its inception almost 100 years ago. Connecting remotely located wind generation can reduce carbon emissions but will require large investment in infrastructure with considerable transmission losses, and is still based on a centralised electricity

generation model. We can continue to prop up the same ageing centralised infrastructure with all its inefficiencies, or we can chose to start the introduction of decentralised generation options in a planned way. Decentralised energy generation can have benefits in energy reliability, low carbon emissions, significantly less transmission losses, as well as greater community participation. This could occur by reducing energy consumption with the possibility of generating income for local communities with a favourable feed in tariff, where income could be reinvested in decentralising energy at a local level. Money from CPRS could be used to expand a decentralised system instead of giving away free permits to big polluters. Decentralised energy needs to be trialled in public housing estates because greater concentration can deliver cost effectiveness. Decentralised energy can potentially deliver lower energy prices, a more reliable energy supply and greater involvement of government as well as the local community in energy efficiency. As existing centralised electricity infrastructure needs to be upgraded the option of introducing decentralised energy may be very cost effective.

Conclusion

The energy market is more than generation, transmission distribution and energy retailers. The energy market provides an essential service to the Australian community. Without access to safe and reliable energy Australians move from the 21st century to the 19th by a flick of a switch. The purpose of the energy market is to keep that switch on. The market is at a turning point both with internal constraints due to ageing infrastructure and growing demand. A CPRS will change the pricing signals within the market and it will start to function differently. The direction that decision makers take in planning a future energy market will also shape whether energy is affordable and accessible for the Australian community and in particular for low income consumers.

Recommendation

Undertake an extensive study into the triple bottom line comparison between introducing a staged approach to decentralised generation and the maintenance and upgrade cost of existing centralised electricity infrastructure.

Recommendation

Investigate delivering integrated energy efficiency measures that include housing and appliance energy efficiency regulations and requiring the provision of information to consumers regarding energy efficiency behavioural change.

For further information contact:

Marie Andrews

Convenor

Financial and Consumer Rights Council

Utilities Working Group

Financial and Consumer Rights Council Inc.

admin@fccr.org.au

Ph: 03 9663 2000

Fax: 03 9663 7677

ABN: 89498543075