



## Power of choice review Final report and recommendations

### Giving consumers options in the way they use electricity

The final report of the AEMC Power of choice review sets out a substantial reform package for the National Electricity Market. This package provides households, businesses and industry with more opportunities to make informed choices about the way they use electricity and manage expenditure.

The overall objective is to provide that the community's demand for energy services is met by the lowest cost combination of demand and supply side options. This objective is best met when consumers are using electricity at the times when the value to them is greater than the cost of supplying that electricity.

#### Final report, recommendations and implementation plan.

The final recommendations are a package of reforms designed to increase the responsiveness of the demand side to evolving market, technological developments and changing consumer interests over the next 15 to 20 years.

These reforms act to facilitate efficient DSP in two ways:

- 1. Provide consumers with information, price incentives and technology - enabling consumers to see and be rewarded for taking up demand side options (demand side changes).**
  - Residential consumers who are able to change their tariff structure and consumption patterns could save in the short term.
- 2. Enabling network operators, retailers and others to support consumer choice through better incentives to capture the flexible demand and through decreasing transaction costs and information barriers (supply side changes).**
  - Reducing peak demand growth will avoid some future network and generation investment and save generation fuel costs. This is estimated to reduce total system expenditure by between \$4.3 bn to \$11.8 bn over the next ten years (3 per cent and 9 per cent of estimate total system expenditure over the period). The majority of these potential savings are in reduced network costs.

Efficient and flexible pricing options and the introduction of the demand response mechanism in the wholesale market will help consumers to adapt their consumption patterns and hence manage expenditure.

#### Key recommendations

##### Proposed changes - residential and small business consumers

- Reforms to the National Electricity Rules (NER) and National Energy Retail Rules to provide improved access to electricity consumption data, helping consumers link their energy consumption decisions to their expenditure.

**The Power of choice review is proposing reforms to the NEM so that families, business and industry can have more control over the way they use electricity and manage expenditure.**

#### Proposed changes - residential and small business consumers – continued

- Gradually phasing in efficient and flexible pricing options so consumers can choose how and when they use electricity and pay accordingly:
  - Safeguards would be put in place for consumers with limited capacity to change their consumption.
  - Energy concession/rebate schemes and energy efficiency programs to be appropriately targeted.
- Review current arrangements for consumer switching to enable consumers to more easily switch between different electricity retailers.
- Policy and rule changes to promote more competition in new metering and data services technology, giving consumers the opportunity to understand their electricity load profile and what they can do to reduce or change it. The proposed approach for commercial investment is preferable to retaining networks as the monopoly provider of metering services to households and small businesses.
- Providing that the option of a government mandated roll out of smart meters in the National Electricity Law is removed. This is to provide certainty to the market to make commercial investments in enabling technology.
- Modifications to the National Energy Customer Framework and the Australian Energy Regulator's guidelines for robust consumer protection.

#### Proposed changes – industrial and commercial users

- Development of a new demand response mechanism in the NER to reward businesses and factories for changes in volume or time of consumption.
- Providing more opportunities for users generating their own electricity to sell that electricity into the grid. Generating power on-site (distributed generation via networks or large users) rather than centrally may be more cost efficient.

#### Proposed changes – market participants

- Building a framework that will provide a commercially sound and sustainable basis for making demand side part of the network planning and investing process; and improve the framework for how distribution businesses determine network tariffs.
- Establishing formal consultation when setting network tariffs - distribution network businesses will be required to engage in a formal consultation process with retailers and consumers when setting their tariffs.

#### Implementing the recommendations

The Power of choice review is a combined state, territory and federal government initiative. The final report is now with the Standing Council on Energy and Resources, together with a proposed implementation plan to make the necessary changes to the NER and other aspects of the market, for their consideration.

The final report recommends a comprehensive consumer awareness program prior to the implementation of pricing and metering reforms to assist consumers can make informed choices about their electricity consumption and realise the benefits and opportunities of taking up DSP products and services.

A full copy of the final report is available at [aemc.gov.au](http://aemc.gov.au)

**The review's final report includes recommendations for change to every part of the electricity supply chain – enabling greater use of demand side participation in the market.**

## Continuing reform agenda – electricity

The AEMC's work program is enhancing the rules to allow businesses and the regulator to deliver reliable electricity supply for consumers in the most cost efficient way. This requires an electricity market that can adapt to changing circumstances and deliver efficient investment and innovation. Our other work also focuses on driving efficient electricity market outcomes:

- The AEMC has changed the NER to improve the strength and capacity of the regulator to determine network price increases so consumers don't pay any more than necessary for the reliable supply of electricity.
- The Transmission Frameworks Review addresses the need to create a flexible framework to deliver efficient risk allocation and investment in future generation and transmission.
- The Review of Distribution Reliability Outcomes and Standards is looking at the merits of moving to a national framework for setting distribution reliability standards.

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