

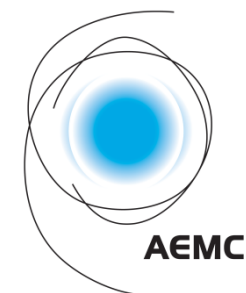
Power of choice review

Public Forum - Directions paper

19 April 2012
Marriott Hotel, Sydney



AUSTRALIAN ENERGY MARKET COMMISSION



Introduction and context



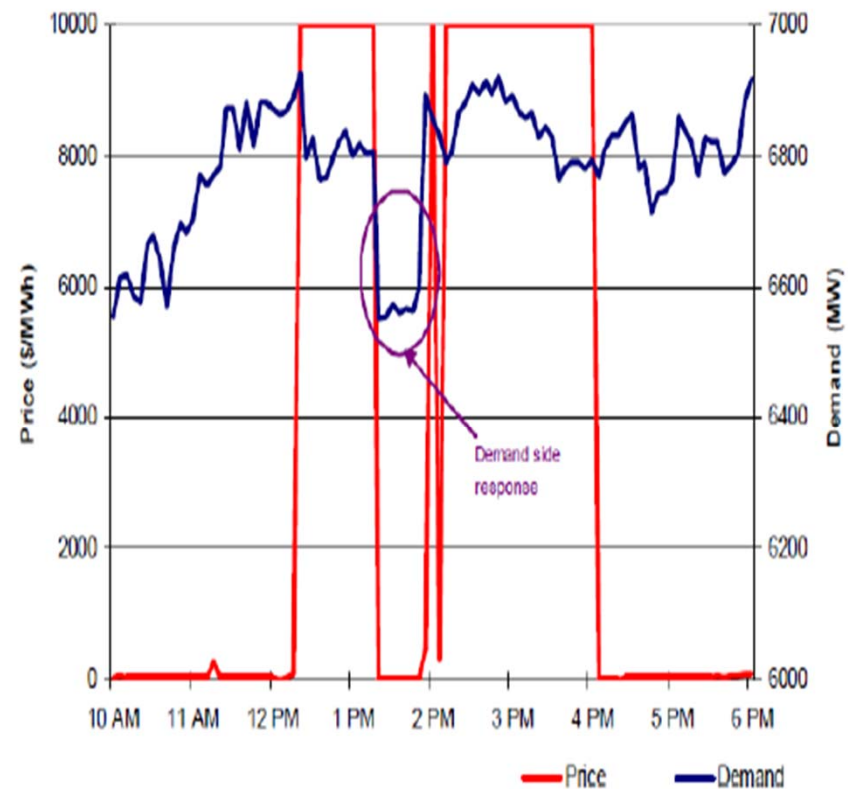
Dr Brian Spalding – AEMC Commissioner

Purpose of today

- Provide snapshot overview of where we are at with the review
- Our thinking on priority issues and areas for reform
- Engage and obtain views from stakeholders on directions paper outcomes
- Feedback on possible solutions and potential changes to market and regulatory arrangements
- Forum builds on ongoing stakeholder consultation
- Submissions to directions paper close on 4 May 2012

The review

- MCE directed review – builds on previous studies and reforms
- Purpose is to:
 - identify opportunities for consumers to make informed choices about the way they use electricity; and
 - provide incentives for network operators, retailers and other parties to facilitate and respond to consumer choices.
- Seeks to ensure that lowest cost combination of DSP and supply options is used to meet consumers' demand for electricity services in the long term.



Source: AER. Prices Above \$5000 MWh 22 April 2010. 2010.

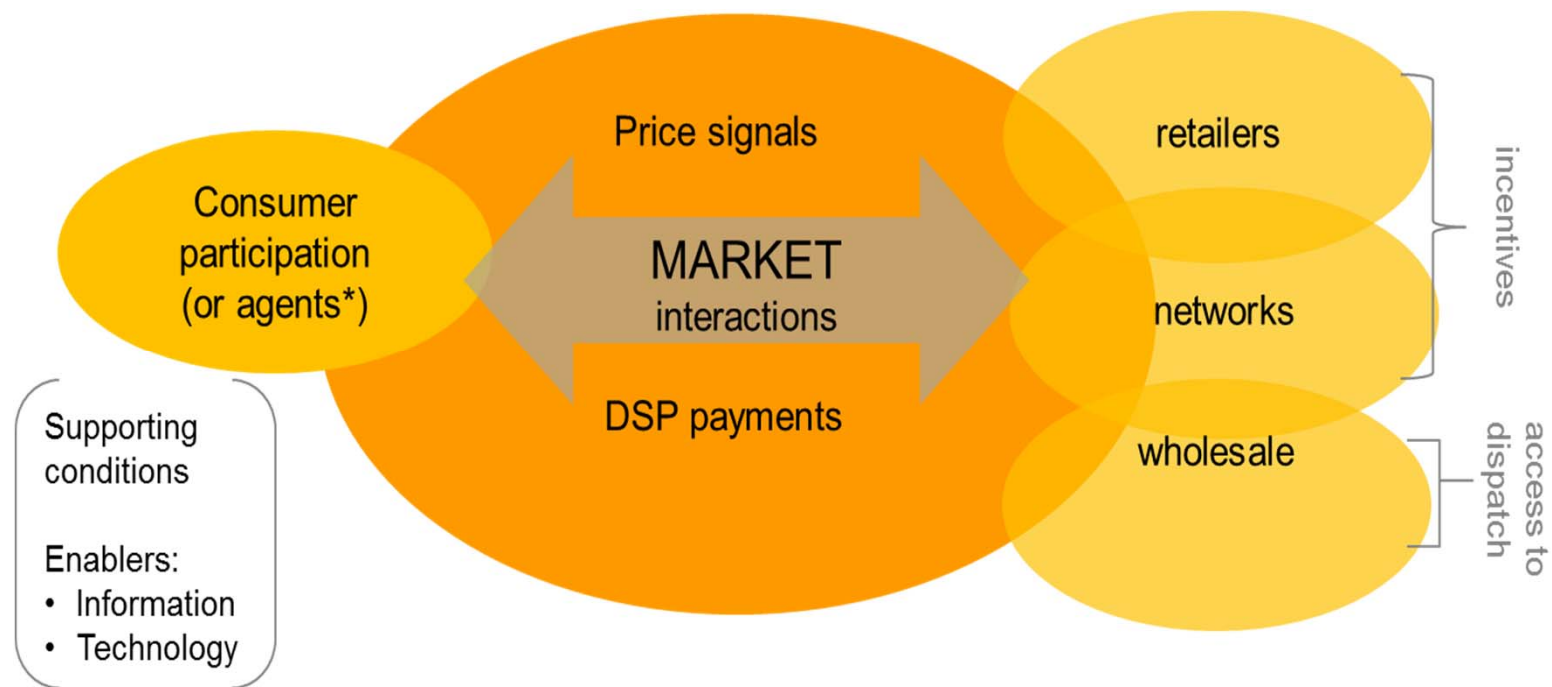
Opportunities for change

Why are we doing the review?

- To ensure that the market identifies and captures the opportunities to maximise efficient use of DSP
- Peak demand increasing relative to average demand
- New investment needed to service demand
- Ernst and Young estimated that targeting the top 1% of “peaks” from overall demand in each year:
 - Indicative value of between \$3bn and \$11bn of network costs could be avoided over the next twenty years

Opportunities for change

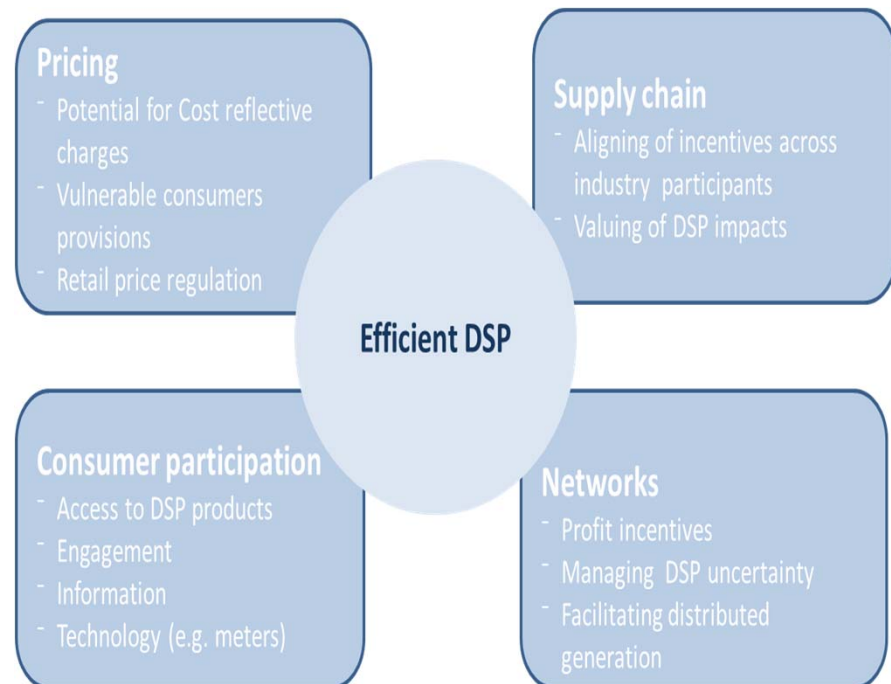
- Directions paper – market conditions and issues covered.



Opportunities for change

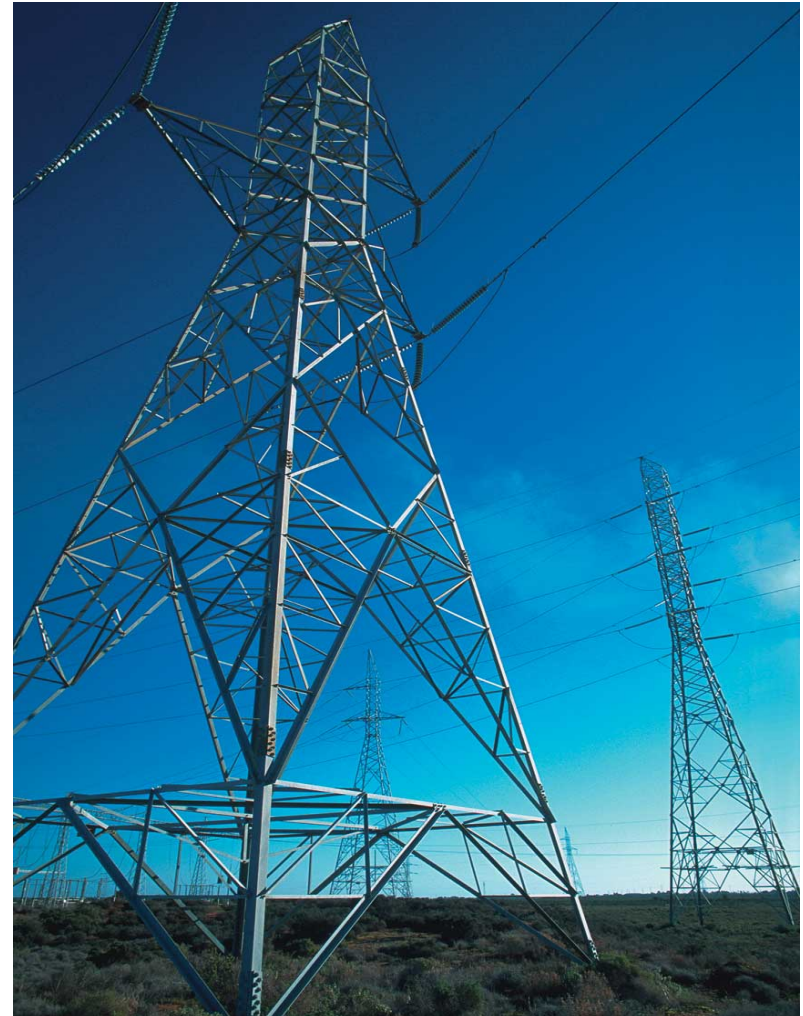
- Four umbrella areas to progress
- Range of issues under each of these groups
- There are links and interactions between issues and solutions – need to be considered collectively
- Seeking stakeholder responses on what are the options for change across each area

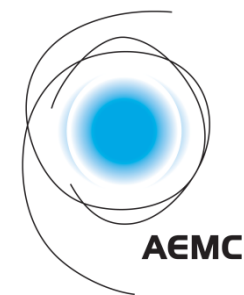
Issues and opportunities for enabling efficient DSP



Next phase of the review

- Directions paper - first stage to consider potential options for reform
- Options will be assessed against overall objective of review and NEO
- Materiality of issue will also be considered
- The draft recommendations will propose what changes are needed to existing market and regulatory arrangements
- Draft report – end June 2012
- Public forum (draft report) – July 2012
- Final report and implementation plan to SCER – Sept 2012





Session 1: Consumer participation



Ms Lisa Nardi – Senior Advisor, AEMC

Directions paper findings

Consumer choice and participation

- Education
- Information
- Engagement



Directions paper findings – way forward

- Timely access to usage data
- Role of parties across the supply chain engaging with consumers
- Meter provision
- Information on DSP capability
- Opportunities to participate in wholesale market by third parties

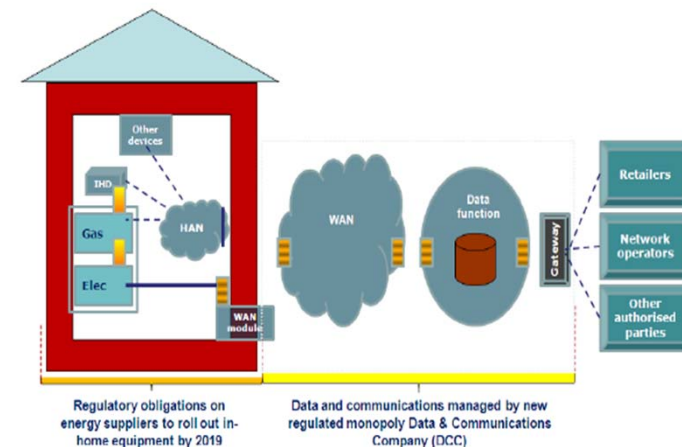
Options in scope for improving data access and information ??



Improve clarity of rules (e.g. 7.7a)

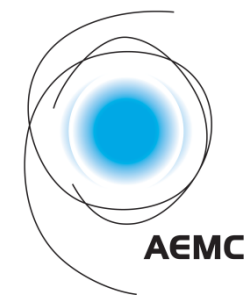


Information hub and service provider



Stakeholder presentations

- **Mr David Stanford** – Policy Officer, Consumer Utility Advocacy Centre (Vic)
- **Mr Phillip Watts** – Group Procurement Manager - Energy, Boral



Session 2: Distribution network incentives



Mr Eamonn Corrigan – Director, AEMC

Directions paper findings

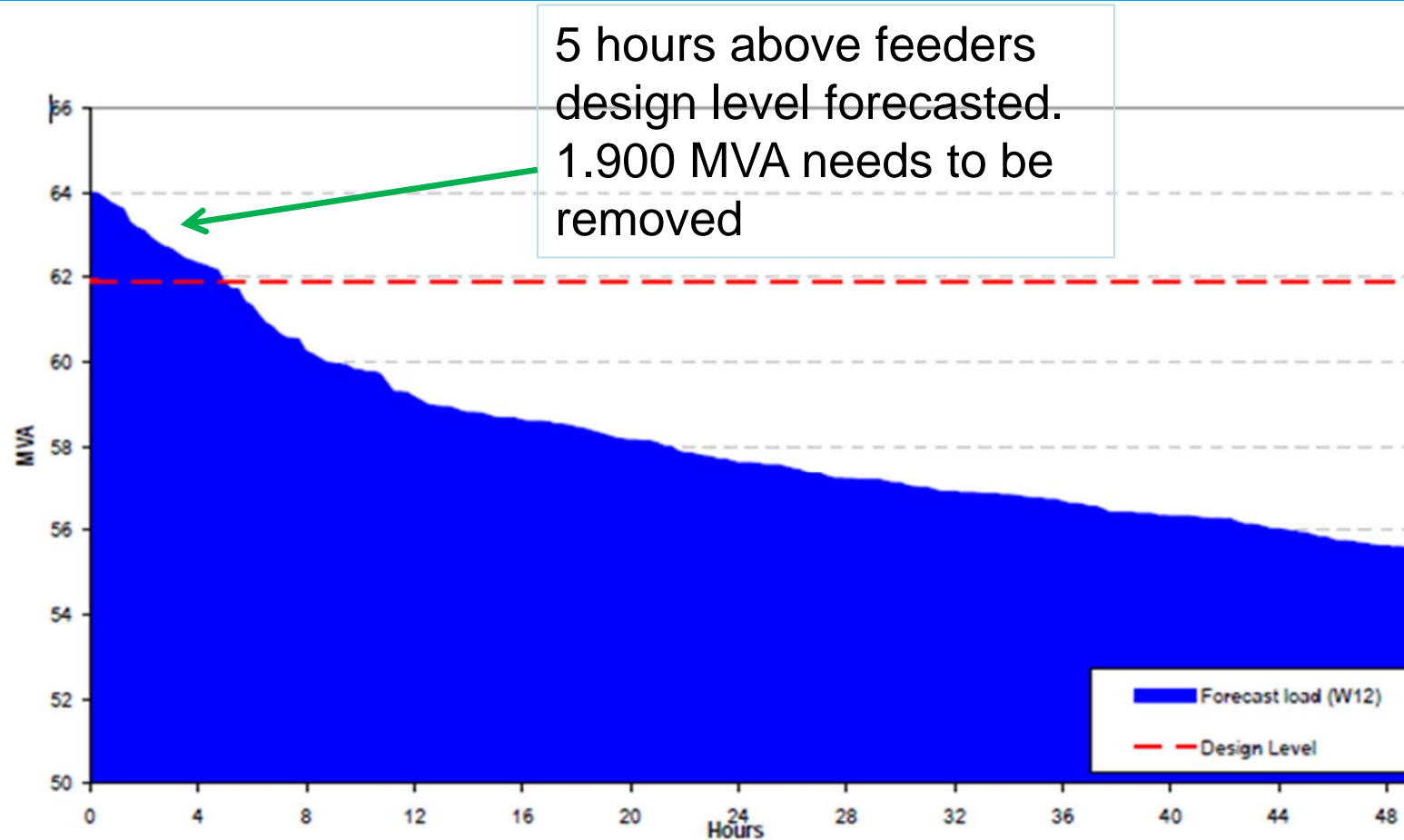
Networks play an important role in DSP through:

- developing own DSP products
- purchasing DSP
- facilitating DSP (e.g. distributed generation)

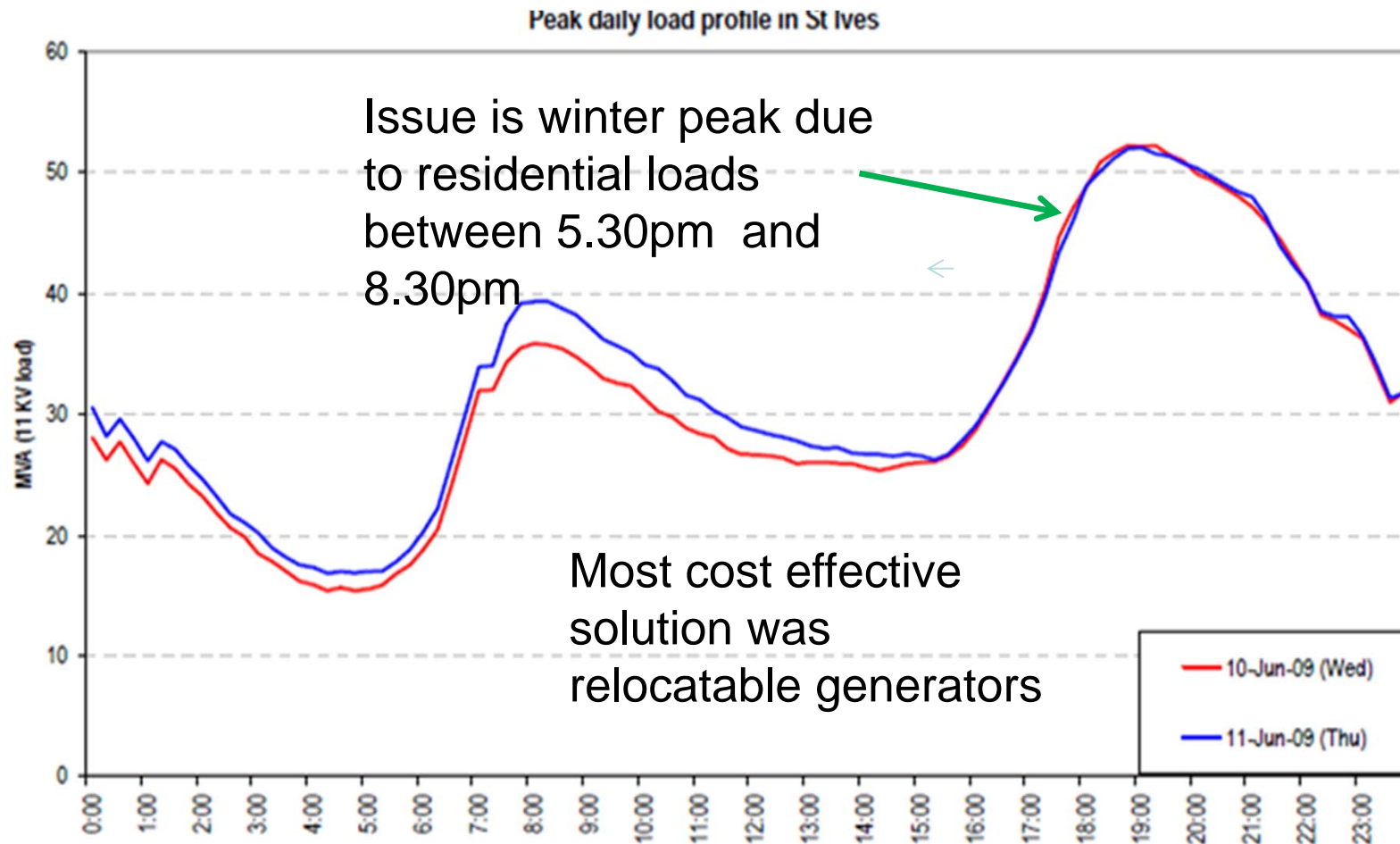
Networks increasing their focus on DSP (e.g. trials, network planning)



Example - St Ives substation 2011/12



Example - St Ives substation, Sydney 2011/12



Directions paper findings

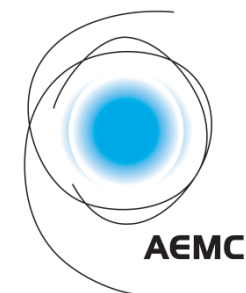
Issue	Finding
Profit incentives on network incentives	Current arrangements may fail to provide right incentives for DSP compared to capital investment
Inclusion of demand management into the network planning process	New arrangements being introduced through the Distribution Network Planning Rule Change (due Sept 2012)
Reliability obligations and service incentives	May need to explore possible temporary exemption to service incentives schemes to help develop DSP market
Network business role in engaging with consumers	Need to consider further as part of consumer engagement framework

Directions paper findings – way forward

Issue with economic regulation arrangements	Options to consider
Balance between operating and capital expenditure	<ul style="list-style-type: none"> • New principle in Rules – “Any expenditure relating to capital assets either on investment or avoiding/deferring investment must be treated the same” • Equalisation incentive scheme (Ofgem) • More certainty on treatment of DSP expenditure at next regulatory re-set (i.e. transmission)
Misalignment between business profit and cost differences	<ul style="list-style-type: none"> • Longer retention periods for capex savings • Ability to seek to increase allowed revenue during periods
Profits linked to volumes	<ul style="list-style-type: none"> • Incentives on networks to price at efficient cost • Decoupling

Stakeholder presentations

- **Mr George Maltabarow** – Managing Director, Ausgrid
- **Mr Alistair Parker** - Director Regulation and Network Strategy, SP AusNet
- **Mr Mendo Kundevski** - Policy Manager, Property Council of Australia



Session 3: Role of price signals/technology



Mr Ben Woodside – Senior Economist, AEMC

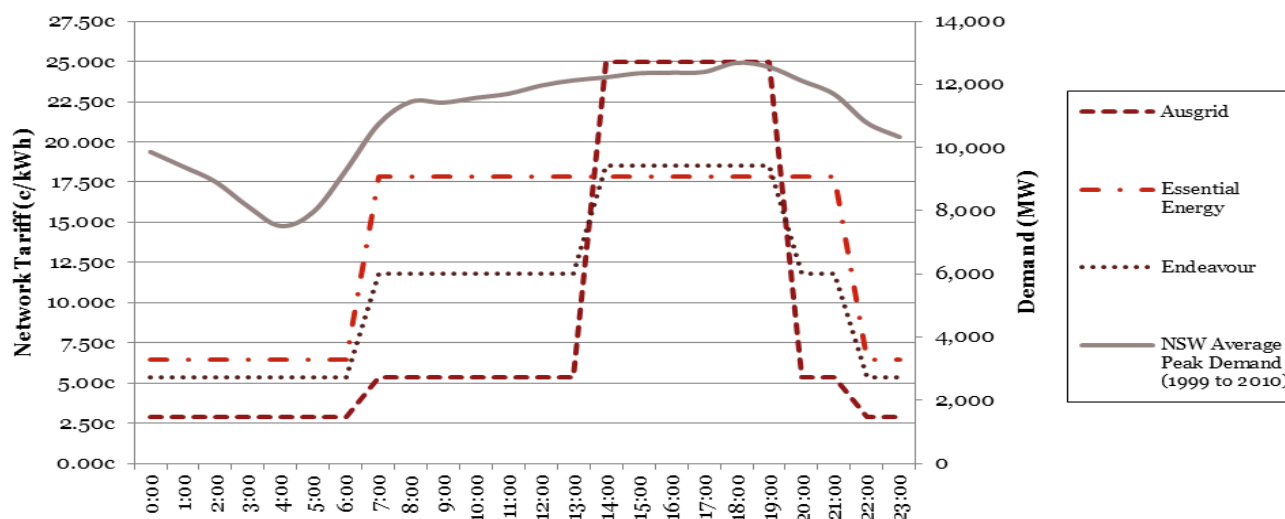
Directions paper findings – price signals

- What are cost-reflective prices?
- How can the market offer the benefits to consumers?
- How can all consumers benefit?



Directions paper - network costs

- Some network tariffs are flat; others appear to broadly reflect costs:



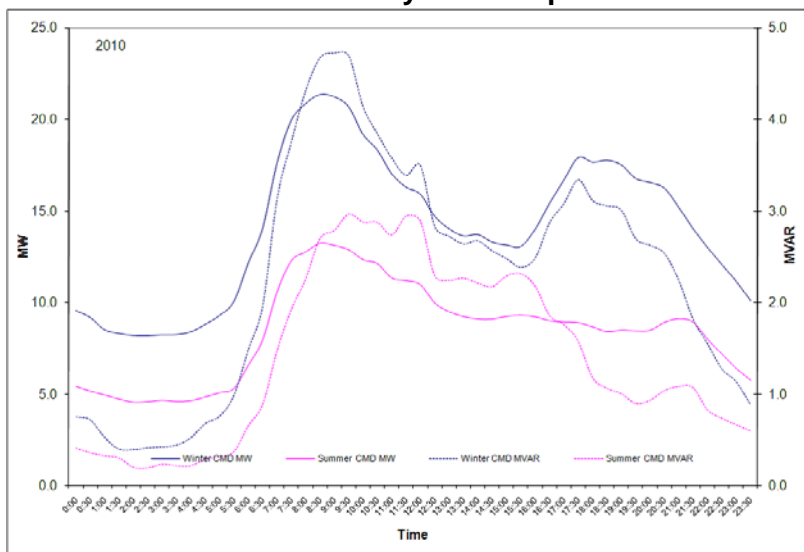
- Why the difference?
 - Interval meters (so why not install them?)
 - Pricing rules?
 - Incentives in regulatory arrangements?

Small customer meter data

Interval	Accumulation
12%	88%

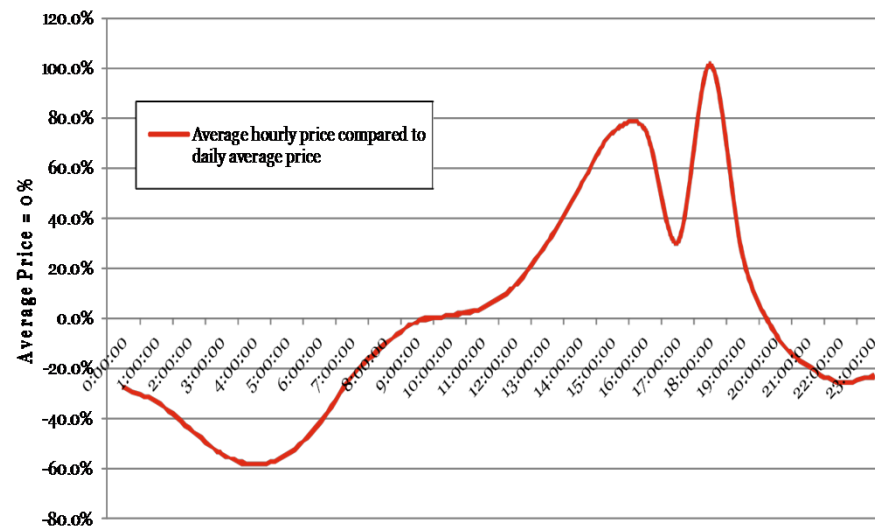
Directions paper - retail prices

Substation daily demand profile¹

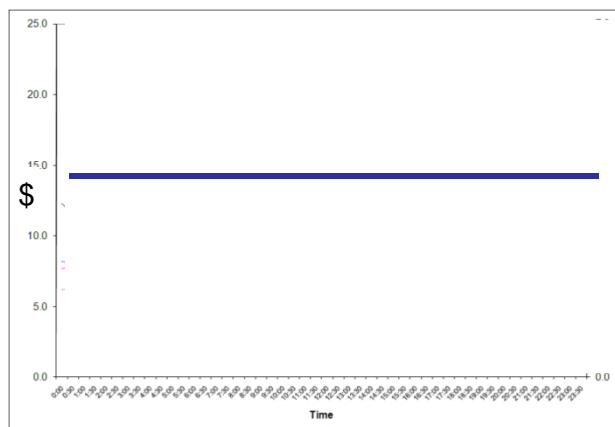


¹Bellerive substation (Aurora network)

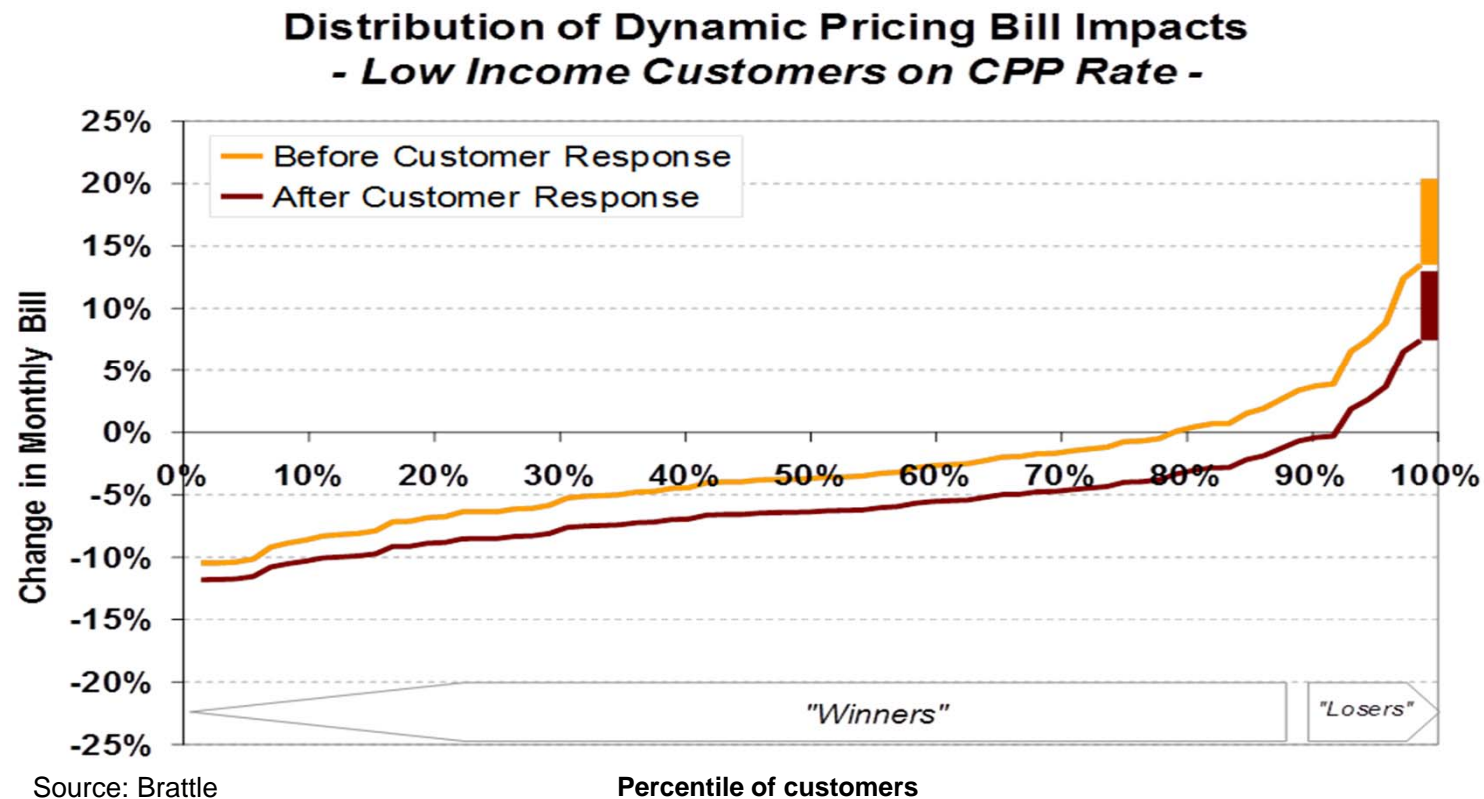
Relative hourly prices in the NEM



Typical retail tariff



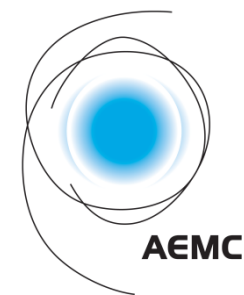
Directions paper - impact of time-sensitive tariffs



- How can we facilitate a response?
- What support is needed for the 20%?

Stakeholder presentations

- **Professor Paul Simshauser** - Chief Economist & Group Head of Corporate Affairs, AGL
- **Peter Casey** – Manager, Energy Conservation & Demand Management Strategy, Energex
- **Mr Gavin Dufty** – Manager, Policy and Research, St Vincent de Paul Society (Vic)



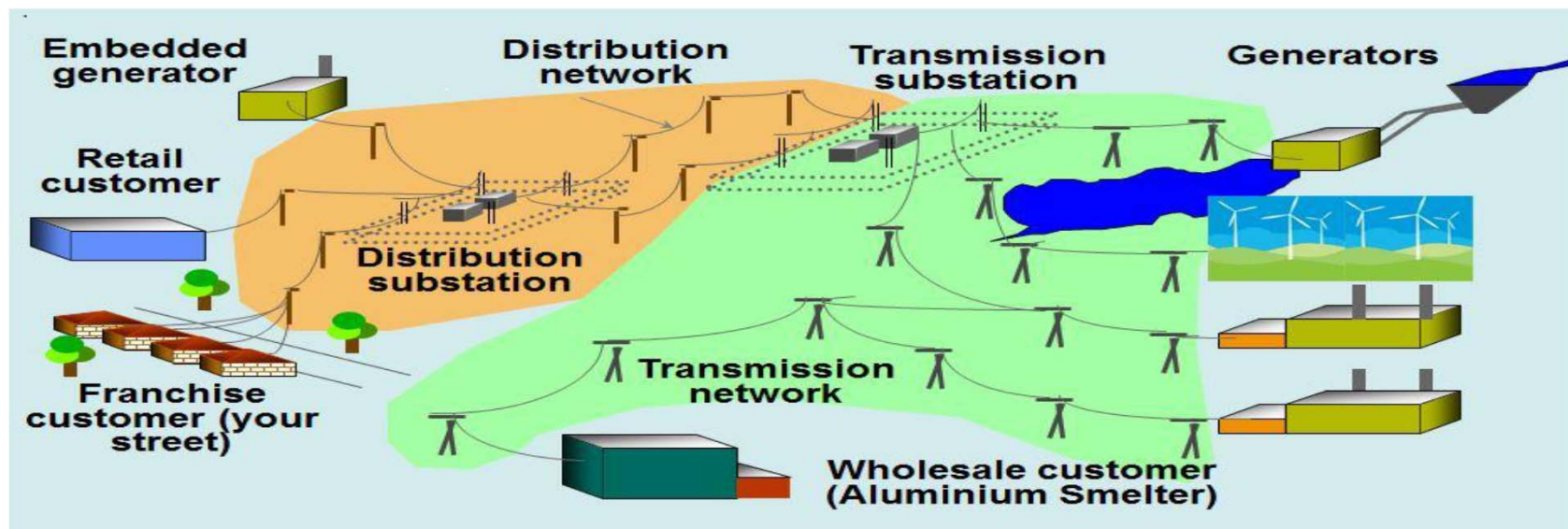
Session 4: Supply chain interactions



Mr Eamonn Corrigan – AEMC

Directions paper findings

- DSP can have multiple impacts – costs and benefits – along the various participants along the electricity supply chain
- How does the supply chain work in a collective, co-ordinated manner to identify and capture efficient DSP projects?



Direction paper findings

- Uncertainty about how to value and quantify the impacts of a DSP project
- Market participants may have different commercial drivers and interests may not aligned with facilitating efficient DSP project
- Some parties may be benefiting from a DSP project without contributing to the costs – **free rider**
- Networks and retailers may develop different business cases - **split incentives**

Leading to:

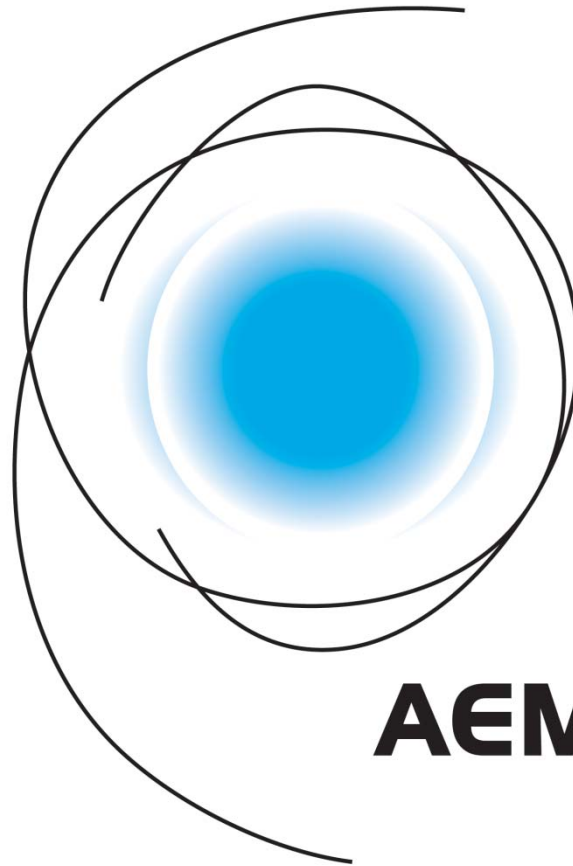
- ***Consumer not being offered the full value of its decision to change its consumption pattern***

Directions paper findings – way forward

- Is it difficult for a consumer/demand response aggregator to negotiate with both a DNSP and retailer at the same time?
- What are the opportunities for both a retailer and DNSP to come together and work jointly to capture value of DSP?
- Appropriate approaches to value the costs and benefits of DSP?
- Would cost reflective price signals (which correctly value DSP action) overcome this disaggregated supply chain problem?
- Contractual arrangements, or
- Is there a need for a regulatory solution (i.e., single purchaser)?

Stakeholder presentations

- **Dr Paul Troughton** – Manager, Australian and New Zealand Operations, EnerNOC
- **Mr James Bondio** - Manager Alternative Energy Solutions , Asset Management Division, Ergon Energy
- **Mr Grant Raja** – Business Development Manager Energy and Utilities, Honeywell Building Solutions



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