15 October 2012

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Mr Pierce

Power of Choice

Alinta Energy welcomes the opportunity to make a submission in response to the Australian Energy Market Commission's (AEMC), *Power of Choice - giving consumers options in the way they use electricity*, *Draft Report* (the Draft Report).

Alinta Energy welcomes the AEMC's ongoing work in this challenging area and appreciates the AEMC has considered ways in which to improve demand-side participation in the National Electricity Market (NEM). Alinta Energy considers that where the AEMC has recommended change or improvements in this area, it is vital that its recommendations are supported by robust economic analysis. Furthermore, a realistic assessment of the benefits demand side participation needs to take place so as not to inflate expectations.

Analysis in this sector needs to be considered in the context of the value of consumption and the economic benefit of supply from the commercial and industrial sector. While Alinta Energy fully endorses providing consumers, large and small, with more opportunity to participate in demand side and adjust their consumption accordingly, it is feasible that demand side participation may continue to be minimal and that in many instances demand side may be inefficient and not viable without notable subsidies.

Alinta Energy is of the view the key to increasing demand-side participation is cost reflective pricing, Hence, it is concerning when education, energy literacy, compulsory technology or frameworks are proposed solutions in lieu of an acknowledgement that demand side participation should be expected to be muted in the absence of cost reflective pricing; and even with cost reflective pricing consumers may continue to value consumption over curbing usage for a host of reasons: enjoyment of modern technologies and consumer goods, business production and supply, comfort of air conditioner use during summer and so on.

Alinta Energy provides the following specific comments on the recommendations made by the AEMC in this report.

Timely and accessible information for consumers and third parties

Alinta Energy supports improved information to consumers but believes that the costs of additional information and hence provision needs to be considered.

Alinta Energy supports the provision of a base level of free data as is currently the case but suggests any additional data above this level should be provided in the market, at a cost (or no cost) determined by individual retailers.

Alinta Energy Finance Pty Ltd • ABN 39 149 229 998
A Level 11, 20 Bridge Street, Sydney, NSW 2000 Australia
T +61 2 9372 2600 • F +61 2 9372 2610 • W alintaenergy.com.au

Alinta Energy does not extend this support to the provision of data to third parties and it remains unclear how this will not create additional complexity for retailers and additional privacy concerns for consumers.

Should a consumer wish to provide their own data to a third party they are free to do so. More broadly, the role of third parties needs to be carefully considered. In Alinta Energy's view the use of third parties creates a range of perverse outcomes and may be of limited value to consumers in a competitive market where retailers are less restricted in their product offerings and where cost-reflective pricing is present.

Metering services

Alinta Energy is reluctant to support compulsory metering standards above the existing requirements. Alinta Energy believes that market participants are best placed to decide on the right metering technology to meet their customer's needs. If there is consideration of a compulsory metering solution, Alinta Energy suggests the cost and benefits of the metering technology needs to be carefully considered by the industry.

To facilitate market led solutions, including alternative technology types, Alinta Energy endorses competition in metering services. A market that is open to competition will lead to lower costs to consumers and more innovative outcomes.

Nevertheless, Alinta Energy does not believe that multiple Financially Responsible Market Participants are needed at a single connection point to facilitate competition in metering, or more broadly in services to consumers. The added complexity and regulation could have the perverse effect of muting new entry and interest in this space while complicating relationships with consumers in an already highly regulated market sector.

Gradually phasing in time varying network tariffs

Alinta Energy supports the AEMC's proposed transition to time varying network tariffs. However this is premised on the retailer's ability to pass-through these network tariffs to its customers. It is not clear that frameworks are in place between retailers and network service providers, or indeed state based regulators, to ensure appropriate translation of this recommendation into the market.

Rewarding demand side participation in the wholesale market

Alinta Energy does not support the demand response mechanism contained in the Draft Report.

The demand response mechanism is particularly flawed and the level of analysis in the Draft Report is poor. Alinta Energy shares the industry's concerns that this proposal is being rushed to the implementation stage without appropriate scrutiny largely based on the pitch of the proponent.

Alinta Energy does not believe the case for change has been made. In Alinta Energy's view, the proposal should not proceed and does not meet the National Electricity Objective for the reasons listed below.

- The AEMC's analysis misinterprets the mechanism as one that creates a benefit for society and all consumers as opposed to working as a free option for a select group of consumers able to exercise the mechanism which in the process distorts market signals.
- The mechanism proposes a range of wealth transfers without any benefit for electricity consumers, with any benefits achieved by those consumers able to offer the mechanism being recouped from all consumers. In that regard, the mechanism is effectively a subsidy to large commercial users offering the mechanism and creates an uneven playing field.

- The AEMC's analysis fails to understand the implication of lower prices in the NEM as opposed to lower costs. Where prices, whether through this mechanism or any other distortion, inefficiently reduce prices those costs will need to be recouped at some other stage of the supply chain.
- The proposal has implications for market signals that determine long-term efficient plant mix and Alinta Energy is firmly of the view the proposal if implemented would impede market signals.
- The proposal assumes the demand response is not currently valued in the NEM and fails to detail the options for offering demand response in a manner which is consistent with the existing NEM architecture including:
  - enerNOC is capable of becoming a retailer;
  - enerNOC or any other party can obtain an Australian Financial Services License and take a contractual position that benefits from demand response;
  - large load could look to contract directly with a generator either to access wholesale prices or act as a physical cap in a generator's portfolio;
  - large load could offer services to network service providers; or
  - large load can offer services to existing retailers.
- The proposal fails to identify where savings, if any, are – these being the difference between generation fuel costs and the costs of instigating demand response. The analysis does not calculate the opportunity cost to customers which is likely to be costs of lost production or how these costs may only be worth incurring where the true costs of bidding into the market are not faced by the mechanism provider.
- The proposal, at no stage, has reasonably accepted the significant risk with the calculation of the baseline, and there appears to be an ongoing assumption that despite the litany of issues in calculating demand response baselines in numerous markets that these issues will not arise in the NEM.
- The proposal fails to account for how the market will be made whole if the baseline is not accurate or a prudential shortfall arises. Alinta Energy notes that low prices often follow high prices and it is entirely possible a mechanism provider could be short to the market.
- The proposal fails to resolve the manner in which retailers and generators will be required to price in the risk and cost of the mechanism which will ultimately blunt any benefit to mechanism providers, or limit the benefit to what can be recouped from a wider group of customers, and will be priced into contract markets.
- The proposal fails to determine whether the off-grid generation the mechanism is likely to incentivise and demand response is actually more efficient than large scale supply.
- The proposal introduces dispatch inaccuracy and measurement issues which runs counter to the significant efforts to improve market transparent and metering accuracy. This will limit the ability of generators and retailers to rely on pre-dispatch information to determine market offers, and contractual positioning.

Alinta Energy contends the AEMC has not fully recognised all the issues and implications arising from this proposal for the market, including retailers and generators. This may be because this proposal was outlined relatively late. This is disappointing and has lead to a range of false expectations around a proposal that hasn't been considered in the depth required.

The proposal has the effect of shifting risk to other participants in the supply chain, is dependent on wealth transfers from retailers and generators, and ultimately will require costs to be smeared to all consumers for the benefit of the few. This is inconsistent with the National Electricity Objective.

Conclusion

Alinta Energy welcomes the AEMC's ongoing efforts to improve competition in the market and increase transparency but highlights the limitations of the current approach to demand side analysis.

If you wish to discuss these matters please contact me on, telephone, 02 9372 2633.

Yours sincerely

Jamie Lowe
Manager, Market Regulation