

11 October 2012

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

Dear Mr Pierce,

**AEMC's Power of Choice Review Draft Report**

The Clean Energy Council (CEC) is pleased to comment on the Commission (AEMC)'s draft Power of Choice Review.

The CEC welcomes the AEMC's commitment to improve the opportunities for demand side participation (DSP) in the National Electricity Market (NEM) and to maximise the use of DSP in the market enabling consumers to make informed choices about the way they use electricity.

Australia, in common with many other advanced economies, is experiencing significant increases in its electricity prices. One of the main drivers of these increases - peak demand - has increased dramatically in recent times which is in turn driving transmission and distribution companies to invest for the short summer peak and ageing infrastructure – when other options do exist. Rising peak demand not only drives up network costs but also increases the cost of hedging contracts on the wholesale electricity market. Significant benefits can be realised through better management of demand, particularly peak demand.

The current regulatory arrangements fail to provide the right incentives for investment in demand reduction. There is an inherent focus on the short term and incentives to increase investment in network infrastructure<sup>1</sup> without capturing the overall benefit of infrastructure deferral. This in turn leads to an underestimation of the value of demand side management.

DSP measures such as dynamic pricing, direct load control, storage, energy efficiency measures and embedded generation can all play a crucial role in demand management which in turn

---

<sup>1</sup> Garnaut, 2011, *Garnaut Review 2011: 11 Electricity Transformation*, available: [www.garnautreview.org.au](http://www.garnautreview.org.au).

helps to control energy bills by reducing unnecessary expenditure to meet expectations of ever increasing peak demand.

The CEC's key recommendations to support the uptake of DSP are:

- Electricity consumers need to understand the full costs of electricity through the introduction of transparent and cost reflective price signals.
- Consumers require access to easily interpretable information on their electricity consumption through time-of-use smart meters with integrated in-home displays, web based customer portals and other similar innovations.
- Any roll out of metering and demand side actions needs to be supported by a coordinated government and industry led education and information campaign to assist consumers to make informed choices about their electricity usage and the wider benefits to the energy market.
- Exploration of a central information hub to capture information collected by smart meters and provide analysis of usage and trend patterns for use by consumers and industry, although this will need to be managed with care and consideration to a consumer's right to their data privacy.
- Changes are required to the current regulatory frameworks to facilitate commercial incentives for third parties, retailers and networks to invest in demand side management and capture the benefit of infrastructure deferral.
- Clarity about how the regulator would treat investment in energy storage technology by DNSPs (as a generation or transmission/distribution asset) is needed to establish whether such investments can be recouped through regulated customer charges.
- Recognise that energy storage technologies could play a significant role in DSP, but to correct the current underinvestment in storage the price signals must capture the benefits that at present accrue to multiple parties.<sup>2</sup>

Other options including voluntary load control programs, automated remote energy management systems, critical peak pricing and payments to businesses and residential

---

<sup>2</sup> Energy storage in Australia: commercial opportunities, barriers and policy options, Marchment Hill Consulting, October 2012.

customers to reduce their energy use at requested times during peak demand periods should be further explored to facilitate consumer choices available to alter their consumption patterns. Regulatory arrangements that affect distribution business licensing and revenue determinations also need to be reviewed in order to enable new consumer based demand management technologies to be trialled. Whilst the CEC supports the AEMC's proposed reforms to facilitate efficient DSP by enabling consumers to see and access the value of taking up demand side options; and enabling the market to support consumer choice, we believe that the AEMC should prioritise the proposals that can bring about the most effective reforms to facilitate DSP in the nearer term. These include:

- Improved access to consumption data to inform consumer choices
- Encouraging investment in smarter metering technology
- Introduction of time varying network tariffs supported by consumer education to reward consumers for changing their behaviour while providing safeguards for vulnerable customers who may be affected by a move to time varying prices
- Improved requirements for network service providers to consider DSP options rather than additional network investment in transmission infrastructure
- Enabling consumers to sell the output from their distributed generation to parties other than their retail electricity supplier

### **Consumer access to electricity consumption information**

The evidence suggests<sup>345</sup> that consumers are concerned by rising energy costs and are willing to take action to use less energy but that more information and the right tools are needed to make informed choices about the way they use electricity and the measures they can take to use it more efficiently. The CHOICE survey<sup>6</sup> demonstrated a lack of understanding by consumers of the part their own actions can play on their electricity bills. Access to information and consumption data to be able to see the differences that specific actions make

---

<sup>3</sup> Auspoll survey for the Clean Energy Council, June 2011;

<sup>4</sup> Energy shock: pressure mounts for efficiency action, AiGroup, July 2012

<sup>5</sup> CHOICE online survey of Australian household energy decision makers, June 2012

<sup>6</sup> *ibid*

on their energy use should be accompanied by allowing competition and product differentiation in energy retailing in order to provide and improve genuine choice. Network operators, retailers and other parts of the electricity supply chain need to be incentivised to be able to better support this consumer choice with a wider array of products and services that can be offered.

A clear and coordinated policy and regulatory approach is needed to reduce the regulatory burden, avoid confusion and provide a greater degree of certainty to market participants and the benefits to consumers this will bring.

Being able to easily access and interpret information on actual energy consumption over the day with the support of smart meters is crucial to aid consumers to take action to modify their electricity consumption. The CEC contends that a standardised approach is needed to govern the form and structure of data offered to provide consistency to all parties involved.

Consumers should be able to access their own raw historical and current data as well as aggregated data to allow them to monitor their own average electricity use and load profile including at times of peak demand and compare it to aggregated consumer segment load profiles. The CEC understands that the level of aggregated data needed may differ between residential and industrial consumers. Campaigns that allow consumers to compare their consumption to other segments of the population such as the Target 155 water campaign in Victoria have been highly successful in encouraging consumers to take action to manage their consumption. Load profiles coupled with cost reflective pricing practices would be particularly powerful in allowing consumers to observe their actual costs associated with their consumption patterns especially during periods of peak demand.

The CEC agrees that it is essential that consumers are able to access standard consumption data such as that suggested above at no cost. The extent to which a further level of detail may mean that it could be appropriate for retailers to charge a fee on a cost recovery basis for metering data that is above and beyond the standard data form to cover their costs will need careful consideration and scrutiny.

The CEC agrees that general market information should be published on consumer segment load profiles to inform the development of DSP products and services to consumers. The CEC considers that it would be worth exploring a central information hub to capture information collected by smart meters and provide analysis of usage and trend patterns for use by consumers and industry, however this should need to build on and learn from relevant experience in other jurisdictions such as the United Kingdom. This, in turn, would stimulate a debate about whom is the most appropriate agency to hold and publish this data taking account of where the data is most likely to be collected, and public perceptions about the collection and storage of such potentially sensitive data on customer use patterns.

The AEMC's proposal to make changes to the National Electricity Rules (NER) and the National Customer Energy Framework (NECF) to clarify the framework for exchange of data will help to provide consistency for participants. Reducing the current complexities about accessing and receiving of consumption data will allow more consumers to participate in DSP actions and open up the market in the provision of demand side options. It goes without saying that the development of supporting guidelines by the AEMC to inform the provision of the rules must be conducted in consultation with industry, consumers and other relevant stakeholders.

### **Engaging with consumers to provide DSP products and services**

Allowing third party access to the aggregated information consistent with privacy and security provisions will assist in the provision of DSP products and services by private industry and increase competition of these products and services in the market. Access to aggregated data on consumer sector's consumption patterns and representative load profiles by third party providers such as Energy Service Companies (ESCO's), aggregators and other retailers will allow these businesses to obtain the market information they require to invest in DSP. These businesses play a crucial role in DSP through developing their own DSP options, purchasing DSP related products or facilitating DSP activities such as distributed generation.

The AEMC's proposal to make changes to the NECF to clarify the framework to enable authorised agents acting on behalf of consumers to access energy and metering data will make it easier for consumers to engage third parties to tailor appropriate options for them to manage their energy consumption. All parties offering DSP services to consumers must be subject to the same regulatory requirements as existing electricity retailers and be required to: obtain explicit informed consent from the consumer; and adhere to the marketing provisions under the NECF and Australian Consumer Law.

The CEC concurs with the AEMC's view that the existing rules and guidelines applied by the Australian Energy Regulator (AER) should be amended to clearly outline the circumstances when distribution businesses are able to directly contract with residential and small consumers to deliver DSP network management services/programs. These changes might, for instance include ensuring distribution business DSP activities are taken forward in an open and competitive manner, and that all parties need to have effective accreditation that ensures fair competition, with the DSP customer knowing what they are committing to.

## **Enabling Technologies for DSP**

To enable consumers to better manage their energy consumption through DSP, smart meters that have the capability to display real time energy consumption on an interval basis, have two way remote communication and are integrated with web based customer portals, phone applications and in-home displays are essential. With the introduction of electric vehicles and the increasing use of air conditioning, innovative ways of managing peak demand are now very necessary. Distribution businesses are already trialling innovative initiatives to reduce a consumer's energy use at peak times. Options such as energy storage technology, voluntary load control programs, automated energy management systems, critical peak pricing and payments to businesses to reduce their energy use at requested times are ways of achieving this but favourable policy conditions are required in order to harbor investment in the appropriate technologies.

Unlike most of the other options, energy storage technologies can provide a range of benefits, such as peak demand management, ramp rate control, grid stability (etc), all of which help avoid network upgrades, but while these 'stacked' benefits can be very attractive, these different benefits accrue to different market participants. Ensuring that these multiple benefits can be captured in a payment structure is essential for unlocking greater investment in storage.

A minimum functionality in smart meters is required to support many of the initiatives considered here and allow consumers to make informed choices to alter their consumption patterns. The CEC believes that a new minimum functionality specification needs to be included into the National Electricity Rules for all future meters installed for residential and business consumers that allows for interval measuring; two way-remote communication to facilitate energy management system functions, and the ability to undertake remote re-energisation / de-energisations. Advances in DSP and energy efficiency technologies are moving quickly. The enabling technologies that support these functionalities need to keep pace with these advancements. Installation of the appropriate functionality metering technology is fundamental to capture the full value that these existing and future demand side measures can have on managing energy use.

A progressive, well-coordinated rollout of advanced metering infrastructure (AMI) across the nation should be a priority to ensure that all consumers irrespective of what state they live in or what their household status is, have the same opportunities made available to them to participate in demand side measures in order to manage their energy consumption. This will also enable economies of scale and allow easier coordination of information provision to consumers. In this context, there may be merit in making this a contestable area although experience overseas suggests this may lead to sub-optimal results. It has been suggested by

the AEMC that a contestable model of AMI should be used, and that this should include metering. Experience in the UK where this occurred demonstrates that this can lead to significant sub-optimal results. However the rollout is taken forward, the provision of the dynamic energy services that can result need to be competitive and contestable to allow third parties to participate on a non-exclusive and non-proprietary manner by certified providers.

Lessons can be learned from the New Zealand experience of rolling out meters in a contestable market place. This would help to allay concerns about stranded assets, infrastructure duplication, meter functionality and data aggregation and access. A contestable approach supported by clear regulations around access and sharing of consumption data will promote innovation and allow the benefits of AMI to be realised.

The CEC sees merit in unbundling metering costs from Distribution Use Of System (DUOS) charges. Unbundling metering costs from DUOS charges should avoid the experiences in NSW and Queensland where metering services are bundled with network supply charges leading to customers having to pay two forms of metering charge should they wish to change their meter - effectively restricting consumer choice.

Lessons can also be learnt to avoid the delays and uncertainties associated with the Victorian Smart Meter rollout. Effective communication and consultation is required with consumers, the community and the industry prior to any rollout which will also assist to build community acceptance and buy-in.

Improved and coordinated communication across the industry and government is required. The CEC reiterates that any roll out of metering and indeed all demand side actions be supported by a coordinated government and industry led education and information campaign to assist business and residential consumers to make informed choices about their own electricity usage and the wider benefits to the energy market. There are many DSP options available and while a wide choice will contribute to market efficiencies, standardised information on the DSP options available needs to be provided clearly and simply to consumers in order to avoid presenting unnecessary complexity. This is important because many consumers even now have little understanding of electricity markets, networks or systems and this need to be effectively addressed in order to ensure consumers are fully informed of their choices and rights.

## **Demand side participation in wholesale electricity and ancillary service markets**

Unbundling the sale and supply of electricity provided through a retailer from non-energy services, such as ancillary services can assist by allowing the consumer to respond to wholesale electricity prices and alter their consumption pattern in response. Creating a new category of market participant that will allow for the unbundling of non-energy services from the sale and supply of electricity, will allow for third parties to be able provide non-energy services and encourage the development of their own DSP options. Third parties must be bound by the same relevant regulatory obligations that apply to existing electricity retailers to adequately protect consumers and maintain a level playing field in the market.

The CEC agrees that a demand side response mechanism that rewards changes in demand via the wholesale market may assist to enhance the ability of larger industrial consumers to respond to changes in the wholesale electricity spot price. However, the Council cautions the AEMC in prioritising such a proposal over other more easily implemented arrangements that will also act to enhance small consumer participation in the nearer term. The CEC contends that a competitive market with cost reflective retail pricing should be a priority over such a mechanism. In any case, cost reflective retail tariffs would need to be implemented for any demand side mechanism to work effectively and very clear guidelines would be needed for it to function smoothly.

The CEC concurs with the AEMC that the NER be amended to clarify AEMO's role in developing both long and short term demand forecasts including estimating DSP. AEMO currently reports on generation and demand forecasts and has the expertise in this field. AEMO must develop its set of procedures in consultation with stakeholders to ensure the appropriate measures are incorporated.

## **Efficient and flexible pricing options**

The CEC supports prioritising the introduction of cost reflective pricing. A cost reflective charging regime would send a price signal to consumers which could more efficiently reflect the cost of supply during peak demand times. The current peak/off peak pricing system is based on legacy settings and no longer represents current consumption patterns, or the peakiness of demand.

The misalignment of price signals between the timeframe for peak tariffs and the wholesale electricity price during these times needs to be addressed. While the timeframes for peak tariffs are generally between 7 am and 11 pm, the wholesale market price does not align to this time profile. In order to drive adjustments in electricity usage and increased customer

recognition of the importance of demand side response retail electricity prices need to more accurately reflect the occurrence of both peak and off peak wholesale electricity prices.

Currently, retail electricity costs are not really “prices” at all in the technical sense of a value determined by a market. As Associate Professor Iain McGill<sup>7</sup> argues, the more appropriate terminology for retail prices is a “schedule of fees”, because costs imposed on consumers do not directly relate to the cost of supply at the point of delivery, but rather a series of approximations within a complex and inter-related framework. Costs associated with the electricity network are similarly constrained with expenditure on network maintenance and augmentation capped over five year periods which blunts price signals to consumers. Without the broad implementation of rational pricing mechanisms across the energy market (such as ‘dynamic’ time-of-use pricing systems which reflect wholesale prices) both consumers and networks are not exposed to the real costs of supply.

Consumers need to be incentivised to change their behaviour and will only be able to respond to price signals provided these signals are able to be understood and accurately reflect their actual consumption patterns. Simshauser and Downer<sup>8</sup> demonstrated an improvement in the load curve and a reduction in overall energy unit costs with the introduction of dynamic pricing.

A shift to a cost-reflective pricing model would need to be carefully staged to ensure that sufficient information is available to consumers to allow them to modify their behaviour, but also to monitor and assist any demographic groups who might be disproportionately worse off under such a scheme due to an inherent inability to shift their time of use.

In Victoria the smart meter rollout has enabled Origin Energy to develop a tariff and web interface which will permit customers to see their consumption patterns and understand the implications of peak demand through a price signal<sup>9</sup>. With the appropriate information for consumers and protection for price sensitive consumers such a scheme could make a significant contribution to reducing peak demand.

---

<sup>7</sup> Associate Professor Iain McGill, School of Electrical, Engineering and Telecommunications, Joint Director (Engineering), Centre for Energy and Environmental Markets, UNSW.

<sup>8</sup> Limited-form dynamic pricing: applying shock therapy to peak demand growth, Paul Simshauser & David Downer, AGL Energy, February 2011

<sup>9</sup> Origin Energy, 2012, Origin Smart: <http://www.originenergy.com.au/originsmart/>.

An “opt out” model for residential and business consumers would ensure that the majority of consumers will be on the cost reflective pricing. An appropriate consumer education campaign should be conducted as to how cost reflective pricing operates and the benefits that consumers can obtain under such a pricing structure. As the AEMC has identified in its Draft Report, an “opt in” model risks many residential consumers not transferring to time varying pricing, therefore reducing the impact of cost reflective pricing generally and resulting in consumers on cost reflective tariffs subsidising consumers on flat tariffs.

The exception to the “opt out model” should be low income households who should be on an “opt in” model to reduce any initial impacts of cost reflective pricing. All consumers and likewise vulnerable consumers must be provided with relevant and timely information on any changes. A review of energy concessions, government rebates and examination of the role Family Tax benefits can make to vulnerable consumers is also important to manage the costs of energy bills.

### **Distribution network incentives and distributed generation**

In order to achieve efficient outcomes from demand management the current regulatory framework needs to be reformed in order to create an attractive investment environment for third parties such as distributors, retailers, consumers and other energy service companies to invest in smart demand solutions.

As recognised by the AEMC, some of the potential benefits of enhanced contributions from embedded generation and the increased use of storage in addition to demand management can lead to *“an increase in market participation and thus more competition in peak generation capacity and improved efficiency in the use of peaking capacity”*<sup>10</sup>.

The existing Demand Management and Embedded Generation Connection Incentive Scheme (DMEGCIS) need to be reformed so that it drives innovation and cost reduction. Demand management and localised generation both have a significant potential to reduce costs to consumers *and* the environmental impacts of the electricity sector. The design of the current scheme only represents around 0.1-0.2 per cent of a distributor’s revenue and lacks an effective mechanism to reward distributors when they create innovative solutions. The

---

<sup>10</sup> AEMC (2012), *Small Generation Aggregator Framework, Draft Rule Determination*, 5 July 2012, Sydney, p. 6.

introduction of appropriately placed incentives and targets for distributors to innovate and reduce peak demand is required to make a real contribution to demand management.

To date the scheme has been a poor performer. This was recognised by the AEMC when making the final determination to include the connection of embedded generation who stated the recognition that *“the benefits for the promotion and uptake of non-network alternative investment brought about by the rule are likely to be small”*<sup>11</sup>. Some of the reasons for this are discussed below.

#### *Conflicting interests*

As distributors are incentivised to make capital investments and receive a return through sales of energy a conflict of interest exists in distributors embracing the deferral of network investment. One factor compounding this issue is that any compensation to distributors for avoiding investment provided by the scheme is very short lived when compared to the long term return on capital investment gained through a distributors regulated asset base.

#### *Small contribution to revenue*

As stated above, the incentive provided by the scheme represents only 0.1-0.2 per cent of a distributor’s annual regulated revenue<sup>12</sup>. This means that distributors do not see the clear long term benefits of implementing any significant change resulting from the scheme.

#### *Scheme administration*

While the AER is responsible for approving the allowance and expended budget, each distributor must submit their proposed projects to the AER. Demand response projects are generally of a technical nature. Being an economic regulator the AER may not be best placed to assess the proposed costs or performance of the scheme over time.

For the reasons outlined above it is reasonable to expect that the long term continuation of the DMEGCIS scheme in this form is only capable of creating very small reductions in demand, with comparable benefits to consumers. The CEC recommends that the following changes to the scheme be considered.

---

<sup>11</sup> AEMC 2011, *Inclusion of Embedded Generation Research into Demand Management Incentive Scheme*, Rule Determination, 22 December 2011 , Sydney, p. 32.

<sup>12</sup> CEC analysis of AER DNSP determinations.

### *Enhanced scheme performance monitoring*

Given the technical nature of the proposals from distributors the AER may not be best placed to assess the scheme in its current form. Two options are available for this scheme to be implemented seriously: the AER's capacity could be enhanced to provide sufficient technical support or a central technical body could undertake a validation of the technical performance of the distributor's proposals, thus limiting the role of the AER to the economic evaluation only. Alternatively, a new scheme may remove the need for the AER to make a technical assessment as scheme performance would be measured by the AER, not technical capability.

The CEC is finalising a proposal for an improved demand management incentive scheme, which we will share with the AEMC in due course.

### **Network tariff structure influencing incentives for DSP**

Distributors are able to recover more of their revenue from a fixed component of the electricity tariff as energy transfers decline, thus negating any potential benefit to consumers from demand reduction, energy efficiency and embedded generation. The current incentives for distributors are based around energy delivered to their customers which essentially guarantees their regulated revenue. However, this approach will increasingly become less viable within a regulatory framework which values demand management, energy efficiency and embedded generation.

Chapter 6 of the National Electricity Rules<sup>13</sup> provides a mechanism for distributors to develop their tariff structures in order to recover their regulated revenue. This enables distributors to recover more of their revenue from a fixed component of the tariff energy transfers decline, thus negating any potential benefit of demand reduction to consumers.

In conjunction, the current regulatory arrangements fail to provide the right incentives for investment in demand reduction. There is an inherent focus on the short term and incentives to increase investment in network infrastructure<sup>14</sup> without capturing the overall benefit of

---

<sup>13</sup> AEMC, 2012, *National Electricity Rules Version 51*, available: <http://www.aemc.gov.au>.

<sup>14</sup> Garnaut, 2011, *Garnaut Review 2011: 11 Electricity Transformation*, available: [www.garnautreview.org.au](http://www.garnautreview.org.au).

infrastructure deferral which leads to an underestimation of the value of demand side management.

In order to achieve efficient outcomes from demand management the current regulatory framework requires reform with the intent to harbor an attractive investment environment for third parties such as distributors, retailers and other energy service companies.

The CEC contends that the establishment of an improved demand management incentive scheme would shift the bias away from capital investment, mitigate the financial attrition and remove disincentives provided it is well designed in consultation with industry and market participants.

There are a wide range of barriers that exist to the widespread uptake of innovation in demand management and embedded generation technologies. The scope and breadth of these issues makes clear that incremental changes to the regulatory frameworks and market rules will be insufficient to drive outcomes which serve the long term interests of consumers. The CEC is supportive of the AEMC's proposed amendments to the rules including: clarification that the AER can consider market benefits when assessing the efficiency of network expenditure; extra flexibility in the annual tariff setting process of network businesses to reflect changing DSP costs; and exemptions from reliability service standards for specific DSP pilots/ trials. These changes are crucial to better facilitate peak demand reductions at the distribution network level.

### **Distributed Generation**

Distributed Generation has a pivotal role to play in demand side management. Although the peak demand and carbon emissions reduction capability of embedded generation has been recognised by many, the connection process is problematic and has led to the failure of many projects. The current connection frameworks are insufficient to manage the process efficiently and desperately require reform. Distributors envisage generator connections as an obligation rather than as part of their day to day activities. To date this approach has led to major inefficiencies in the connection process where distributors have limited staff available, no clear technical requirements for access and in some cases little interest in processing an application to connect. In Victoria these issues have led to the mistrust of distributors and exposed generation developers to millions of dollars of additional expenses and wasted time in the connection process.

A key barrier to the further deployment of such technologies lies with the connection frameworks and the interaction between distributors and embedded generation proponents. These have been well documented<sup>15,16</sup>. The root causes of these issues include:

- The interpretation of the relevant legislative instruments is to the favour of the distributor. In many cases these instruments fail to recognise that the connection process is undertaken between an independent applicant and a monopoly business. It is important to distinguish this from the actions of a distributor to manage its regulated assets. One sided terms in the legislation can be interpreted as protecting the interests of one party over another. The legislation needs to provide a level playing field for all parties.
- There is presently no incentives for a distributor to process a connection application; rather it is a condition of their licence. In conjunction, the introduction of a generator into their network has the effect of reducing the distributor's revenue from energy delivered, whilst increasing the complexity and subsequent cost of their network assets.

These barriers are of particular concern when considering the applicability of embedded generation in a commercial or industrial setting, where the largest impact on reducing peak demand can be created. In many cases complications with connections or extortionate connection costs proposed by distributors without justification have caused proposed projects to fail.

Significant reform of the legislative instruments will be required to facilitate the widespread introduction of embedded generation. The NECF package incorporates a clearer standardised connection process into the NER. Although the scheme remains untested, a clearer standardised connection process will assist to address some of the barriers identified. These changes are important as the capacity of these technologies to contribute to the management of peak demand can be realised through a more efficient connection process. The CEC recommends that these changes are carried through in order to achieve efficient outcomes.

---

<sup>15</sup> Sustainability Victoria, 2010, *Distribution Generation Experiences Analysis*, available: [www.sustainability.vic.gov.au](http://www.sustainability.vic.gov.au).

<sup>16</sup> ClimateWorks, 2011, *Unlocking Barriers to Cogeneration*, available: [www.climateworksaustralia.org](http://www.climateworksaustralia.org).

The CEC welcomes the AEMC's proposal to enable consumers to sell the output of their distributed generation to parties other than their retail electricity supplier. This will provide more flexibility and open up competition in the market.

As stated in the Draft report, any benefits achieved in allowing distribution businesses to own distributed generation assets needs to be carefully weighed up against the effects on competition and overall efficiency. The monopoly nature of distribution businesses makes it an unfair playing field and the CEC has concerns over the impact this may have on competition. A nationally consistent set of ring fencing guidelines should be applied for a clear separation of monopoly and competitive elements competing in the same market.

### **Energy Efficiency measures and policies**

Energy efficiency remains one of the most important policies that governments can deliver to both reduce emissions and to protect consumers from rising electricity bills. A clear and consistent approach is needed to address the barriers to energy efficiency and drive the uptake of energy efficiency improvements. Long term policy stability is required to underpin investment in energy efficiency technologies. Greater coordination between energy efficiency and demand response programs can bring about cost efficiencies and better linking between them is required to send more effective signals to consumers of the benefits the uptake of energy efficiency measures can have.

The CEC recommends a suite of policy initiatives to assist households to increase their energy efficiency and manage their energy costs. The CEC and its members support the establishment of a national energy efficiency savings initiative that brings together the existing state schemes and extends coverage to all States and Territories. Bringing this policy under one set of rules will reduce confusion, reduce transaction costs and improve the delivery of energy efficiency measures to end users. In its submission to the Energy Savings Initiative Secretariat, the CEC recommended that peak demand should not be an explicit objective of a national Energy Savings Initiative but can be better addressed by other work packages, such as this review.

### **Closing**

The CEC looks forward to continuing engagement with the AEMC on its review of facilitating efficient investment in, operation and use of DSP. At present there is a huge untapped resource in the provision of demand management, energy efficiency and embedded generation. However, flaws in the current regulatory frameworks are preventing this resource

from being accessed extensively. Changes are required to serve the long term interests of consumers and a coordinated approach will be required to successfully integrate the numerous challenges that presently exist.

If you have any further questions please contact me via telephone on 03 9929 4100 or by email: [felicity@cleanenergycouncil.org.au](mailto:felicity@cleanenergycouncil.org.au)

Yours sincerely

<original signed>

Felicity Sands  
Policy Analyst