

public interest
ADVOCACY CENTRE

**PIAC Submission to AEMC Strategic Priorities
Discussion Paper**

11 October 2017

Introduction

The Public Interest Advocacy Centre

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in New South Wales. Established in 1982, PIAC tackles systemic issues that have a significant impact upon disadvantaged and marginalised people. We ensure basic rights are enjoyed across the community through litigation, public policy development, communication and training.

PIAC is funded from a variety of sources. Core funding is provided by the NSW Public Purpose Fund and the Commonwealth and State Community Legal Services Program. PIAC also receives funding from the NSW Government for its Energy and Water Consumers Advocacy Program and from private law firm Allens for its Indigenous Justice Program. PIAC also generates income from project and case grants, seminars, donations and recovery of costs in legal actions.

Energy and Water Consumers' Advocacy Program

The Energy + Water Consumers' Advocacy Program (EWCAP) represents the interests of low-income and other residential consumers of electricity, gas and water in New South Wales, developing policy and advocating in energy and water markets. PIAC receives policy input to the program from a community-based reference group whose members include:

- Council of Social Service of NSW (NCOSS);
- Combined Pensioners and Superannuants Association of NSW;
- Ethnic Communities Council NSW;
- Salvation Army;
- Physical Disability Council NSW;
- Anglicare;
- Good Shepherd Microfinance;
- Financial Rights Legal Centre;
- Affiliated Residential Park Residents Association;
- Tenants Union; and
- Mission Australia.

Priorities for energy reform

Average household energy bills must, and can, be reduced

PIAC's view is that energy is an essential service, so it should be affordable for everyone, and it could be. PIAC believes it is possible to reduce household energy bills by 25% by 2025. Key to this is focusing on six priority areas:

1. **Energy networks** must be managed efficiently, underpinned by effective regulation which ensures transparent decision making, appropriate risk sharing, and acceptable reliability at minimum cost to consumers. We already have a dependable interconnected electricity grid that will play a key role in delivering energy to, and between, consumers.
2. Reforms are needed to deliver effective competition and operation of the **wholesale energy market** and supporting services, while making the transition to cleaner energy sources. Australia has an embarrassment of energy resources, renewable and otherwise, and climate change means reducing our carbon emissions isn't optional.
3. There must be effective competition in energy **retail markets** so all consumers, not just those who have the means, have access to real choice between a range of options for energy services. Particular focus should be given to how retail markets can best support vulnerable and disadvantaged consumers, while recognising and addressing the inherent limitations of markets to achieve this goal.
4. Effective **supporting frameworks** are needed for disadvantaged and vulnerable consumers, that recognise that markets alone will not provide the support people need and in any case that people should not have to be engaged just to be able to afford their energy bills. This includes better targeted and resourced concessions, rebates and hardship programs which provide the right assistance for those who need it, when they need it.
5. Disadvantaged and vulnerable consumers should be able to realise all the benefits of **energy efficiency and demand side technology**, with the same opportunities that others have for control over how they pay for, use, generate, and store energy, and not be limited by circumstance such as their income level or housing tenure.
6. Non-energy-specific policies should support, or at least not inhibit, affordable, sustainable supply and efficient consumption of energy. With other sectors increasingly interlinked with energy, governments, energy market institutions, businesses, consumer and community advocates and other stakeholders need to engage outside of the sector to ensure good outcomes for energy users.

Understanding contemporary consumer issues

Consumers and the changing energy market

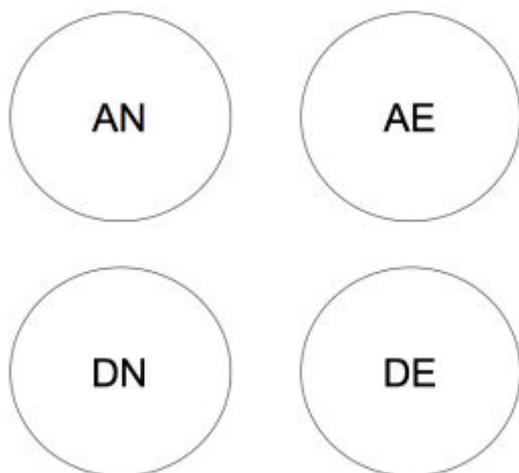
Until this decade, energy consumers could very broadly be categorised into ‘haves’ and ‘have nots’; they could either afford energy, and the tools to limit their usage if they so desired, or they couldn’t.

Since then, deregulation, emergence of competition, innovation (particularly in relation to behind-the-meter energy technology), and escalation of energy prices have created the need for consumers to be thought of differently to just these two cohorts: in addition to social advantage, a consumer’s level of engagement with the energy market now has a material impact on their energy outcomes.

An engaged consumer may be able to minimise their energy bills through a combination of retail churn, behind-the-meter technologies, and ongoing engagement in the form of paying their bills on time to access discounts. Conversely, a consumer that is not engaged, or is financially disadvantaged, is likely to consume more energy from the grid, purchased from a retailer to whom they pay a higher price by not accessing the cheapest deals.

Considering that the levels of engagement and advantage are not mutually inclusive, PIAC considers that consumers should be thought of in four cohorts, for the purposes of consumer protections and promoting competition that works for all consumers.

Figure 1 – Current consumer cohorts



Advantaged/able, not engaged (AN)

This consumer cohort is disengaged from the energy market. While they do experience the detriment of disengagement through suboptimal retail contracts, their relative social advantage means that they are usually able to absorb the financial detriment associated with these contracts. On the other hand, while these consumers are more able to absorb the detriment associated with their lack of engagement, they are still being punished with inefficiently high bills in a way their engaged counterparts are not. Many are also at risk of falling into the DN cohort if their circumstances change, and consumer protections need to cater to this risk.

Disadvantaged/vulnerable, not engaged (DN)

This consumer cohort is likely to have the worst energy outcomes. The combination of energy market disengagement and relative social disadvantage means that these consumers are unable or unlikely to take advantage of new energy technology or beneficial market contracts from energy retailers. They may use large volumes of high-priced energy that they are unable to afford. Competition frameworks should support them having the opportunity to benefit from engagement, but it is critical that supporting frameworks, including protections and concessions, should not require them to be engaged or assume that is an option for them. The goal should be to move people from the DN cohort to the AN cohort, while giving them the opportunity to move to the AE cohort but not obliging them to do so. Priority 4 (on p2 of this submission) should target this cohort.

Advantaged/able, engaged (AE)

This energy consumer cohort is the only one broadly getting good outcomes today. The combination of energy market engagement and relative social advantage means these consumers choose, and can afford, to be adopters of energy technology such as solar PV, energy storage and demand management systems. Furthermore, their engagement with the energy means they are likely to be on retail energy market contracts that enable them to most effectively use this technology. Competitive opportunities for these consumers should be encouraged, while recognising they are, by and large, least at risk of disadvantage.

Disadvantaged/vulnerable, engaged (DE)

While this cohort still requires similar support to the DN cohort, their willingness to engage means they are able to ameliorate some impacts of social disadvantage through engagement with the energy market. The goal for this group should be giving them the same opportunities to benefit from competition in the same way that the AE cohort have, while affording them the protections available to the DN cohort. Priority 5 (on page 2 of this submission) should target this cohort.

Relative energy literacy

Contributing to the distinction between consumers that are engaged and those who are not is what could be described as a decrease in relative energy literacy. This is related to the complexity of energy options in consumers' homes. Where there used to be a limited number of energy-based appliances types in homes, there are now more, and they work in more complicated ways; consider for example the recent advent of rooftop solar and the emerging markets for batteries and energy management tools.

The economics of energy use, including those long been taken for granted, have also changed and continue to do so. Home heating is a good example of this. Heating options and the related economic choices used to be relatively simple: gas heating was the most economical, then electric. This is no longer the case; for a number of reasons, the economics of appliance choice for home heating are now dependent on a variety of factors, and for most consumers the most cost-effective option is efficient electric. However, gas remains the cheaper option for a subset of household types, and there are pitfalls for all consumers in making the wrong decision as the least efficient electric options can still be the most expensive to run.

This additional complexity makes it very difficult for consumers that are not highly engaged to make the optimal economic decision when it comes to heating their houses. Correspondingly, consumer decisions about energy have become more complex and, the level of knowledge

required to be sufficiently energy literate to maximise their benefit has increased. Hence consumers, particularly those who are not engaged, have effectively become less energy literate relative to their needs.

Responses to consultation questions

Analytical framework

PIAC supports the proposed framework.

Suite of goals

PIAC provides high level support for the proposed goals but provides comment on two of them here.

Demand Response and Demand Side Participation need to be prioritised. Any part in the energy supply chain that does not have an effective level of demand-side participation cannot be considered to be operating efficiently.

Importantly, characterising system security and reliability as a question of physics, not economics, overlooks the inherent cost-benefit trade-off. The reliability standard target is 0.002% USE, not zero, for good reason. It would not be efficient to try to plan the energy system to 100% reliability, and a 'gold-plated' wholesale market would be a likely outcome of doing so.

Initiatives and work programs

Consumers

(Please refer to the discussion on understanding contemporary consumer issues on pages 3 and 4 of this submission)

PIAC supports the initiatives and programs that lead to efficient price outcomes, accessible information and effective participation. PIAC agrees that a raft of measures is required to help consumers to fully understand and engage in the energy market. PIAC considers, however, that consumers should pay a fair and reasonable price for their energy without being engaged. PIAC recommends that consumers who either cannot or choose not to engage in the energy market should still have be able to access fair and reasonable energy services and be protected from practices which currently punish this lack of engagement through higher retail rates and missing out on possible discounts. For those consumers who choose to be more engaged, PIAC recommends that any barriers such as those which may limit access to their energy data or the ability to compare offers be removed.

PIAC is pleased that the consumer layer of the framework includes reviewing the consumer protections in the context of the new and emerging services – in particular, PIAC supports extending the National Energy Customer Framework to cover these customers. PIAC recommends that an effective approach to this is to provide a level of protection based on the potential impact to the consumer from losing access to the service.

For instance, a customer would receive a higher level of protection for a service which provides their primary source of energy compared to a similar customer where the service merely

supplements their primary source of energy. The first example may relate to a customer who is supplied by a Stand-Alone Power System and hence losing this system may result in the loss of all electricity supply. The second example may relate to a customer still connected to the grid but whose supply is augmented by a solar and battery system connected behind the meter; in this case, losing the behind the meter system would result in higher bills for their grid-supply but not the total loss of their electricity supply.

Further, noting Priority 6 on page 2 of this submission, PIAC considers that the COAG Energy Council (COAG EC) should also consider potential reforms to other policies which, while not directly energy-related, still impact consumers' energy consumption. These include policies around: building and appliance energy efficiency; housing laws and the ability of tenants to make capital upgrades to rental properties such as installing solar or battery systems; and the electrification of transport.

Integration of energy and emissions policies

Noting Priority 6 on page 2 of this submission, PIAC strongly supports the integration of energy and emissions policies.

System security and reliability

(Please refer to PIAC's previous submission to the AEMC's Reliability Frameworks Review)¹

As noted previously, PIAC is concerned that the programs and recommendations listed under system security and reliability do not make reference to consumers' willingness to pay. It is essential to remember that there may be substantial costs incurred in pursuing continually greater levels of system security and reliability – especially noting the relatively high levels currently experienced in the NEM.

Therefore, PIAC recommends that the COAG EC and market institutions pursue a work program which quantifies the value which consumers place on the current levels of security and reliability as well as the incremental costs (and benefits) of any increase or decrease in this level. This work should inform the work on system security and reliability to ensure that the proposed reforms reflect the true cost-benefit trade-off for consumers.

Effective markets

PIAC strongly supports measures to encourage demand-side participation in markets – this includes not only the wholesale spot market, but also the various ancillary markets which already exist in the NEM and ensuring they are able to participate in any new markets which develop in the future. This is driven by PIAC's contention that no market can be considered truly efficient or effective if it does not have optimal levels of demand-side as well as supply-side participation, illustrated by the table below.

¹ <http://www.aemc.gov.au/getattachment/62f49dd8-789c-4417-8241-9e1c7e99d5eb/Public-Interest-Advocacy-Centre.aspx>

Stage in supply chain	Wholesale and system operation	Transmission	Distribution	Retail	Customer (behind the meter)
Role of DR	<ul style="list-style-type: none"> Alternative to expensive generation to meet peak demand Provide system security Provide ancillary services 	<ul style="list-style-type: none"> Avoid or defer capital investment Cost effective alternative to expensive interconnection investment 	<ul style="list-style-type: none"> Avoid or defer capital investment Provide power quality support 	<ul style="list-style-type: none"> Manage wholesale market exposure Manage retail market exposure 	<ul style="list-style-type: none"> Reduce consumers' electricity costs Provide backup supply during outage
Necessary reforms or outcomes	<ul style="list-style-type: none"> Demand Response Mechanism (that is independent of retailers) 5 minute settlement 	<ul style="list-style-type: none"> Offering DR to consumers Provide products to allow consumers to self-select their cost-reliability level Ringfencing arrangements and network incentives to support DR 	<ul style="list-style-type: none"> Offering DR to consumers Network tariffs for DR Provide products to allow consumers to self-select their cost-reliability level Ringfencing arrangements and network incentives to support DR 	<ul style="list-style-type: none"> Pass on network tariffs and products for DR Provide products to allow consumers to self-select their cost-reliability level Offer retail DR products for wholesale price arbitrage 	<ul style="list-style-type: none"> Consumers are able to self-select cost-reliability trade-off Allow aggregation of individual consumers to provide DR portfolio
Essential	Coordination of services and products to overcome split-incentives and barriers to efficient use of DR				

Figure 1 - The role of demand response in each part of the energy market and system

As noted earlier, PIAC supports the creation of effective retail markets for those consumers who choose to engage in them to enable them to find offers and services which best match their particular needs or preferences. For those consumers who cannot or choose not to be engaged in these markets, PIAC supports measures that ensure these consumers are still able to access energy services at fair and reasonable prices.

Networks

Noting Priority 1 on page 2 of this submission, PIAC supports the proposals to review the economic incentives for network businesses to propose non-network solutions to address or defer network constraints. While PIAC does not necessarily support a move to a total expenditure (totex) model at this stage, PIAC would support reforms which remove any biases or barriers to the efficient use of non-network solutions.

PIAC stresses that pursuing non-network solutions, and reviewing the regulatory framework around them, must also extend to transmission network service providers. While the scale of non-network solutions required to address transmission-level network constraints may be more challenging than at the distribution-level, the potential benefit of deferred network investment is also commensurately larger.

Therefore, PIAC recommends that any reviews and reforms to network versus non-network solutions are applied to both distribution and transmission businesses.

Governance

The NEM is undergoing significant changes in the technologies, business models and options available for both consumers and market participants and it is essential that the policy and regulatory framework is able to evolve in time. PIAC supports the proposals to improve the timeliness and coordination of policy and regulatory reform processes. However, this must not come at the expense of transparent and effective stakeholder engagement.

PIAC also supports more effective coordination between market institutions. Better coordination, not only in the timing and content of reviews but also in the publication of regular reports will help provide a more holistic view of the current state of the NEM and potential issues in the future. Furthermore, it will help to enable more informed stakeholder input to these reform processes by improving the availability of information and reducing instances of unnecessary duplication between work streams.

Continued engagement

PIAC welcomes the opportunity to meet with the AEMC and other stakeholders to discuss these issues in more depth. Please contact Craig Memery, Energy and Water Policy Team Leader on +61 2 8898 6522 or by email cmemery@piac.asn.au.