Exigency

Exigency Management Pty Ltd.
Suite 607, 530 Little Collins Street
Melbourne VIC 3000

16 October 2012

Committee Secretary
Senate Select Committee on Electricity Prices
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

By email: electricityprices.sen@aph.gov.au

Committee Members

Submission – Senate Select Committee on Electricity Prices

Our apologies for the late submission, but Exigency is of the view that a number of key practical policy options exist that have not been tabled so far that are worthy of further investigation.

We make these observations as an independent energy and carbon market consultancy, established in 2003, and whose principals have energy market reform expertise dating from prior to the commencement of the National Electricity Market.

As overarching observations:

> The National Electricity Market suffers from information that is too closely held and a regulatory preoccupation with serving the needs of incumbent players in preference to new entrants and most importantly, the needs of consumers.
>
> The National Electricity Objective is consistent with the objectives and terms of reference of the Committee. However, the NEO needs to be reinterpreted by policy makers and regulators in the context of the point above.

We provide the following further summary comments under the relevant Terms of Reference for the benefit of the reader:

> *Legislative and regulatory arrangements and drivers in relation to network transmission and distribution investment decision making and the consequent impacts on electricity bills, and on the long term interests of consumers;*
>
> There is an inadvertent regulatory incentive toward "gold-plating" of networks. Real-time publication of zone and distribution substation transformer loadings through network metering would assist regulatory oversight and at least indicate whether there is "too much network" as opposed to too high unit costs.

Investigation of mechanisms that could assist households and business to reduce their energy costs, including:

~ the opportunities and possible mechanisms for the wider adoption of technologies to provide consumers with greater information to assist in managing their energy use,

Good information is key to innovation and increased retail competition. There is adequate provision under Chapter 7 of the NER for meter information to be accessible to end customers, but this is frustrated through non-standard compliance protocols, inadequate data management procedures or presentation of data in inaccessible formats. Regulators also tend towards leniency in their interpretation and enforcement[1], such that there is a need for an overhaul of regulatory oversight in favour of the end customer.

With suitable regulations in place governing the provision and access to data, the market would be free to deliver technologies and demand side responses that benefit the customer, without the need for further mandate.

~the adequacy of current consumer information, choice, and protection measures, including the benefits to consumers and industry of uniform adoption of the National Energy Customer Framework

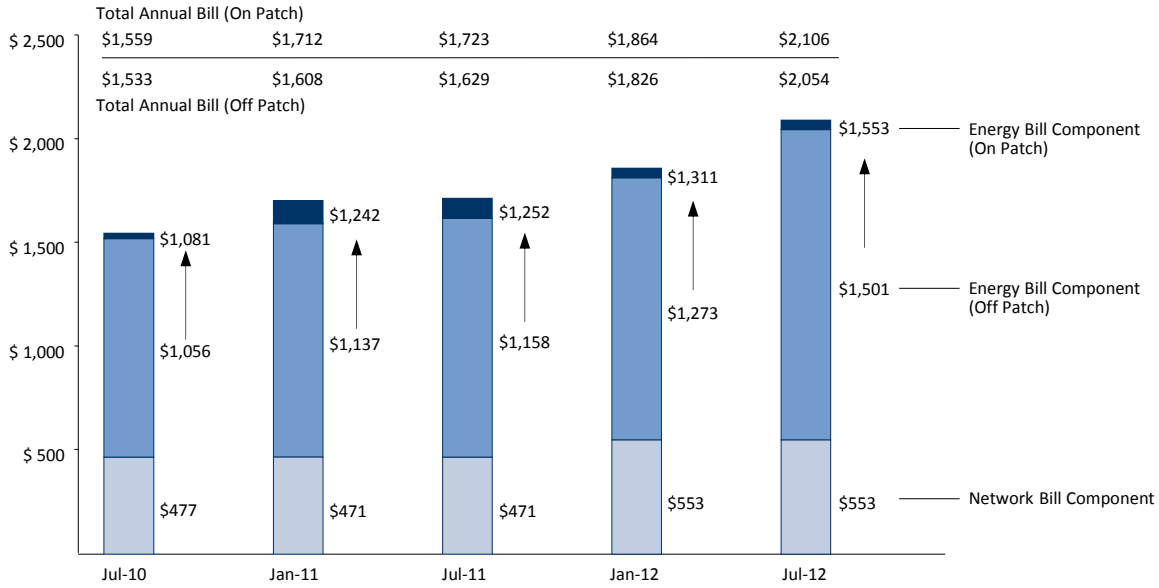
Large customers have access to unbundled prices and have an understanding of the components of their bill. However, small business and residential customers receive bundled bills which mask the impact of changes in the various components.

Internationally, price dispersion and price discrimination are routinely investigated by energy regulators[2]. These are important economic indicators of the level and effectiveness of competition. In Australia such investigations of retailer behavior are seldom undertaken. Moreover, the only publicly available retail tariff time series data on which independent comparison analysis can be undertaken is published by St Vincent de Paul. Time series data allows analysis as shown below to be undertaken –offering valuable insights into the level and impact of competition.

[1] AER Compliance Bulletin No 8 is a public example of this approach to enforcement of Rules

[2] For example Ofgem undertake analysis such as *Update on Probe Monitoring: tariff differentials and consumer switching*, 1 July 2010

Victoria Customer Bill Dispersion*



**Note, Calculations based on annual consumption of 6500kWh. Bill components are Victorian averages across all distributors and use a single rate retail market tariff. Tariff data sourced from St Vincent de Paul energy price worksheets.*

The price data held by energy regulators could support more detailed analyses of this type. However, there seems to be some reluctance amongst regulators to publish such insightful analysis, or indeed the source data, such that it is left to a charity to facilitate this important public service.

The publication of time series tariff data by regulators to support retailer comparisons can only assist in creating an efficient market and would be consistent with the National Electricity Objective.

~ any related matter.

Smart Metering has been rolled out in Victoria at very high cost, but with very little benefit to end customers. Rather than leading to the necessary behaviour change, it has created a loss of confidence in Time of Use pricing. This in turn has impacted the viability of a national smart meter rollout, which otherwise could have begun to address issues such as the impact of inefficient residential air conditioning.

With universal rollout of smart meters now effectively off the agenda, the objectives could be met through a combination of more effective energy-efficiency regulation of domestic appliances, coupled with optional smart metering for end customers.

This would represent a low-cost solution that could deliver 80% of the benefits identified by the various Victorian and national cost-benefit studies.

The above comments and measures are practical and complementary, with further spin-off benefits that we have not expanded upon here.

Reforms proposed in other submissions have potentially greater benefits, but have inherently larger implementation risks. However, the proposed measures outlined above would deliver or facilitate many of the outcomes desired by the Committee as well as providing a solid base for further, more "dramatic" reforms in future.

We would be happy to discuss further if the Committee so wishes, including providing evidence in support of our observations.

Yours sincerely

Stuart Allinson
Director
Exigency Management

Bruce Macfarlane
Associate Director
Exigency Management