

Mr John Pierce
Chairman
Australian Energy Market Commission

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Lodged online

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Dear Mr Pierce,

Re: AEMC Strategic Priorities for Energy Market Development 2013
AEMC Ref: EMO0025

As the peak body for the community services sector in South Australia, SACOSS has a long-standing interest in the delivery of essential services and particular the cost of basic necessities like electricity because they impact greatly and disproportionately on vulnerable disadvantaged people.

SACOSS welcomes the opportunity to make a brief submission to the Commission in relation to strategic priorities from a residential consumer perspective.

SACOSS is of the view that “strategic” priorities for the AEMC are those issues or matters that impact a number of work-streams and are worthy of elevation to a list of priorities simply because of this pervasive influence. SACOSS believes that without priority status, some critical issues may otherwise get lost in the expansive work plan of the Commission.

SACOSS has identified three additional issues for 2013:

1. The NEM's treatment of the Value of Customer Reliability (VCR)
2. The energy market's interfaces with other public policy domains – specifically social policy settings
3. The specific case of distributed solar power and its current and future impacts on the NEM

VCR

VCR represents the dollar value that customers place on the reliable supply of electricity – an indicator of customers' *willingness to pay* for not having supply interrupted.

VCR has been elevated in importance in recent times and is now appearing as an important feature in a number of reviews and activities by all of the NEM Institutions (AEMC, AER and AEMO) as well as by jurisdictional regulators. For example:

- AEMO is undertaking another review of the derivation and use of VCR across the NEM.
- AEMC's Reliability Panel has just released an Issues Paper for the 2014 review of the Reliability standard and reliability settings review¹ in which the relationship

¹ <http://www.aemc.gov.au/market-reviews/open/reliability-standard-and-settings-review-2014.html>

between VCR and the reliability settings (specifically, the Market Price Cap or MPC) is canvassed.

- AEMC’s review of the national framework for transmission reliability
- AEMC’s review of the national framework for distribution reliability and the NSW workstream of this activity.
- ESCOSA’s review of the South Australian Electricity Transmission Code
- Productivity Commission Inquiry into Network Regulation

In general terms, SACOSS is of the view that the interests of residential consumers should be interpreted as:

- Households should only pay for the reliability they want, and;
- Households should get the reliability they pay for.

SACOSS is of the view that the VCR expressed by consumers with limited capacity to pay does appear to be materially lower than households in general and that, in turn, households in general express lower VCRs than the ‘state-wide’ averages employed in network planning to date. Robust and reliable VCR estimates have important roles to play in the fair allocation of costs in the NEM and SACOSS is of the view that this forms a fundamental part of pursuing the National Electricity Objective (NEO).

SACOSS would like to emphasise the importance of matters relevant to low income consumers and welcome AEMO’s acknowledgement of this². The AEMO paper also refers to recent comments made by the Productivity Commission on the relationship between VCR and income³.

SACOSS is concerned that such a strategically important and historically neglected matter such as VCR is being handled in such a disparate way. SACOSS would like to see a leadership role assumed on VCR and is of the view that this is appropriately taken by the AEMC.

The Social Policy Interface

To quote the Australian Government’s Energy White Paper (CoA, 2012):

“Ensuring that consumers, particularly those who are most vulnerable, are able to manage energy costs effectively is also increasingly important. The continued provision of adequate assistance to vulnerable consumers through a sound general safety net, well-targeted jurisdictional concession regimes and appropriate community service obligations remains critical.

Such assistance should be transparent and not undermine competitive pricing structures, which reflect, as efficiently as possible, the underlying costs of supply. It is more efficient for assistance to be provided through properly targeted social policy settings, rather than energy policy settings, to ensure that energy market signals are preserved.”

Such statements are consistent with the approach over the last period of energy market reform in Australia. In summary, the energy policy perspective is that markets should do

² www.aemo.com.au/Consultations/National-Electricity-Market/Value-of-Customer-Reliability-Issues-Paper, section 6.2.5 at page 22.

³ Productivity Commission Inquiry into Network Regulation, Draft Report Chapter 14 page 480-

what they do well – pursue efficiencies through competition and/or best practice regulation – and that equity objectives of social policy should be transparently and publicly funded. In particular, there is a very strong message about not distorting prices in order to meet equity objectives. Rather, prices should be allowed to rise to efficient levels and any ‘gap’ in affordability should be met through either income measures (the references to the safety net) or energy specific concessions.

As an example, in the Final Report of the Commission’s Power of Choice Review, the Commission recommended that⁴:

Governments review their energy concession schemes and target government energy efficiency programs. This is to ensure adequate information and protections are in place for those consumers with limited capacity to respond to the impacts of increased flexible pricing in the NEM.

The Commission acknowledged⁵ that SACOSS suggested governments be required to provide a formal commitment to these recommendations before flexible pricing is introduced.

A matter of significant concern for SACOSS and other consumer advocates is not so much that a focus on economic efficiency and cost reflective pricing may reduce affordability but that the reform agenda does not ensure that a formal public policy link between market outcomes and ‘social and equity issues’ is preserved. It is perhaps the breaking of this linkage – or the lack of a formal structure for the linkage - that lies at the heart of the issue. Deferring responsibility to the Commonwealth’s income safety net and state-based concessions may well have a sound economic basis but no automatic mechanism exists to ensure that the combination of income support and concessions can continue to preserve the vulnerable household’s capacity to pay and stay connected.

SACOSS believes the Commission is well placed to take a leadership position on this issue and believes the biannual ‘Strategic Directions’ process is an ideal opportunity to do so.

Distributed Solar

SACOSS is of the view that a gap in policy leadership also exists in relation to the impact of distributed solar photovoltaic (PV) power systems on the NEM. While *Power of Choice* provides a broad framework into which distributed PV can fit, there continues to be a very disparate approach to this issue. Most of the state regulators have made decisions around the *fair value* of energy exported to the grid and we expect that Distribution Network Service Providers (DNSPs) will be looking to institute more cost-reflective tariff structures in the next year or two. AEMO has produced forecasts of the uptake of solar and the likely impact on peak demand. Most state governments are backing away from any role. Industry representatives and commentators talk about the energy market ‘death spiral’.

This is an issue with wide and material ramifications for prices, network regulation and the long term interests of consumers. SACOSS believes the Commission is well placed to take a leadership position on this issue and believes the biannual ‘Strategic Directions’ process is an ideal opportunity to initiate this.

⁴ Power of Choice final report, s6.3.2 page 165

⁵ Ibid, p.168

SACOSS would be pleased to engage further on these matters. We thank you in advance for your consideration of our comments. If you have any questions relating to the above responses, please contact SACOSS Senior Policy Officer, Jo De Silva on 8305 4211 or via jo@sacoss.org.au.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'RWomersley', with a large, sweeping flourish at the end.

Ross Womersley
Executive Director