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Australian
Business Council
for Sustainable
Energy

Supplementary Submission on the National Electricity Law (NEL) and National Electricity Rules (NER) proposed changes.

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Extract of presentation by Ric Brazzale (Executive Director) to the Pre-finalisation Hearing on the National Electricity Law (Airport Hilton, Melbourne 7 January 2005)

The Australian Business Council for Sustainable Energy (BCSE) would like to thank Senior Officials for the opportunity to make a brief presentation to the Panel today.

The BCSE in its initial submission and in its comments today will be focusing on issues that affect:

- New entrant generators that tend to be smaller and distributed throughout the network; and
- Energy efficiency service providers that may compete with conventional power supply

The key areas that we have concerns with relate to:

- Change in the market objectives
- The National Electricity Rules to have statutory force
- Effect of changes on the commercial arrangements governing existing projects

The focus of this presentation is on the first of these concerns – the proposed changes to the Market Objectives.

Before addressing this important area I would like to echo the concerns raised by many other organisations regarding the inadequate amount of time that has been allowed for consultation. This has limited the consultation that we could undertake with our members and the non-availability of some key documents has limited the scope of our review and comments.

Changes to the Market Objectives

Market Objectives are important as they will guide the further development of the Market. Indeed future Rule changes need to be considered in light of their contribution to achieving the NEM objectives.

Of particular concern to our industry is that the objectives dealing with **technology neutrality** and **neutrality between new and existing participants** have been removed.

The BCSE could support a single objective, however it would need to include environmental sustainability (particularly greenhouse gas emission reduction) and it should maintain neutrality between new and existing market participants.

promote efficient investment in, and use of, electricity services for the long term interests of consumers of electricity with respect to total cost price, quality, reliability, safety, environmental sustainability and security.

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If we go back to when the National Grid Management Protocol was established, back in 1992, the objectives included the following:

“to encourage the most efficient, economical and environmentally sound development of the electricity industry consistent with key National and State policies and objectives”

So why is Environmental Sustainability important now?

1. Reducing greenhouse gas emissions is currently imposing costs on the Australian community and electricity customers more specifically. As an example the NSW Greenhouse Benchmark Scheme requires NSW electricity retailers to reduce the emission intensity of the power that they supply customers. The cost of this is borne by NSW electricity consumers.
2. Electricity production is Australia's single largest source of greenhouse emission accounting for over 35% of total emissions. Importantly however, it has been growing at the fastest rate – with emissions expected to be 60% higher in 2010 than they were in 1990.

Energy market reform has been a key plank in the Commonwealth Government's strategy to reduce greenhouse gas emissions. In projections made by the Commonwealth prior to the Kyoto climate change conference, the “Business as Usual” case factored in greenhouse gas savings of 14 million tonnes per annum from energy market reform¹. The “Accelerating Market Reform Initiative” that was part of the November 1997 package of measures was meant to deliver further reductions in greenhouse gas emissions.

3. Reducing greenhouse emissions is a key imperative of the MCE – reducing emissions and energy market reform are inextricably linked. Developing the electricity market in a manner that reduces greenhouse gas emissions will be a more cost effective way to meet emission reduction targets in the longer term. Customers will always need to pay – pay for energy and pay for the cost of mitigating emissions from energy they consume. Ensuring that the market is developed in a way that does not disadvantage no or low emission new entrant generators will lead to lower costs to customers.

Further price is less important to energy consumers, than total cost.

The BCSE believes that it is important that we do not just focus on price (tends to be seen as being the wholesale price). What is important to customers at the end of the day is the total cost of electricity services that they need. This is much more than the wholesale price, which is determined in a competitive market.

Total cost includes the cost of network services as well as ancillary services, market fees and charges. It also incorporates the volume of power that is required to meet the customers needs – so reducing demand through - say reducing losses, better voltage management, or through energy efficiency measures will also reduce customers costs.

Total cost to customers will also include the cost of reducing greenhouse gas emissions that they will need to bear.

In summary “price” is too narrow a definition of the financial dimension to electricity service provision – “total cost” is a more appropriate term.

¹ Climate Change – Australia's Second National Report under the United Nations Framework Convention on Climate Change, November 1997.