

Introduction

Business SA is South Australia's leading business organisation representing thousands of South Australian businesses crossing all industry sectors and ranging in size from sole-proprietor to large multi-nationals. These businesses operate domestically, nationally and internationally and all are impacted by electricity supply issues and electricity costs.

Business SA has been extensively involved in policy development and advice to government on energy matters through the State Minister's Energy Consumers' Council and the Consumer Advisory Committee of the Essential Services Commission of South Australia. This places Business SA in a strong position to provide advice on improving end-user participation in the Australian energy market. This submission has been prepared in consultation with a range of industry participants, industry associations and electricity experts.

General response

Business SA has been a consistent advocate for improved demand-side participation in the electricity market. It is our belief that Demand Side Management (DSM) is the key to improving the efficiency of the electricity system and delivering lower and more stable pricing structures for consumers.

To that end, we believe that there are a number of key barriers that must be addressed to promote increased end-user participation in the electricity market. These barriers include:

- Addressing the asymmetry of knowledge between the supply and demand sides of the market,
- A mandated roll-out of Time-of-Use (TOU) meters to all consumers, combined with the availability of TOU tariffs (discussed in greater detail later in the submission),
- Greater demand side facilities to promote increased participation in the electricity market, and
- The removal of retail price protection and a shift to full retail contestability for all National Electricity Market (NEM) consumers to promote increased competition in the electricity market producing more competitive outcomes for consumers.

However, where public monies, publicly funded infrastructure or user-pays infrastructure is mandated or regulated, strict outcomes must be established and monitored to ensure that the targeted consumer benefits are achieved.

Business SA believes that the issues under consideration by this working group are critical to promoting greater DSM participation and we are keen to ensure the recommendations of the working group lead to actual, implemented outcomes to improve the competitiveness of the electricity system.

Specific response

Demand Side Response Market Mechanisms

Business SA strongly believes in the need to remove the barriers to DSM mechanisms to promote increased end-user activity in the electricity market. While we are cognisant that a

number of large consumers already incorporate curtailment models in their individual supply contracts with retailers, the majority of small consumers have had little or no opportunity to participate in DSM as a result of an absence of pricing signals.

One of the issues impacting on electricity prices and stability of the electricity network in South Australia, is the peakiness of the demand and pool price. The use of domestic air-conditioners is the primary cause of the electricity market and the impact that this has on retailers and the retail price of electricity. The use of domestic air-conditioning causes significant constraints in the distribution system, increases in price volatility and risk levels for retailers, poor efficiency and increased investment in the distribution and transmission system, all of which result in increased electricity prices for consumers.

Besides the regulatory barriers to DSM, there is also the issue of a considerable asymmetry of knowledge between the supply and demand sides of the market. In other words, the electricity industry holds most of the knowledge while the end-users have very little understanding of the issues contained in the electricity market. Education of all participants in the market is essential to achieve real DSM outcomes.

The 'pay-as-bid' proposal

This is an interesting proposal. However the model appears overly complex, which reduces the ability to achieve real outcomes in the market. The proposal appears to be similar to a reverse pool-pass through model, except rather than responding directly to pool prices, consumers respond indirectly to pool prices and bid excess capacity into another market.

Business SA believes that there are a number of issues with this proposal that reduces its attractiveness. In a market where the majority of consumers struggle to separate energy costs from transmission and distribution costs, the complexity of this model impedes participation levels and reduces demand side response levels.

We believe that greater consideration should be given to removing barriers to direct pool purchase or cost-reflective tariffs by smaller customers. We believe that there is a role for Government to facilitate innovative energy tariffs to encourage DSM and improved participation in the market. Some of these products could include pool pass-through, where the risks are shared between the retailer and the consumer is another method of achieving the same outcome. Governments should encourage the development and rollout of innovative, new energy products, in particular risk-sharing products such as pool pass-through.

The 'aggregation' proposal

Business SA prefers this option of aggregating load as a viable mechanism to stimulate untapped demand side response. Business SA has completed a project that aimed to aggregate smaller loads for curtailment purposes. As a result of this project, we believe that various aggregation mechanisms provide a positive opportunity for DSM outcomes. However, there are also a number of issues that must be considered when reviewing aggregation options including those of the financial instruments involved and binding or non-binding load reductions to name a few.

Our research revealed that those consumers most likely to participate are business consumers who use greater amounts of electrical energy than domestic consumers. However, these consumers will only participate where there are adequate financial incentives.

It should be noted that the advantage to increasing demand side responses in the market is its potential to impact on severe price increases at peak times. However, existing non-firm curtailment, where it is voluntary for the participant to curtail load, has little or no impact on investment levels.

Education and other options

Business SA believes that the key to improved DSM is education, engagement and capacity building. The issues relating to electricity are complex and without adequate education and capacity building the opportunities for participation are limited. Additionally, it is important that an education campaign is not limited to advertising but rather engagement and understanding of the issues involved. This could be achieved through education programs designed and implemented through local business and consumer associations. To enable a better participation rate in the NEM, consumers need to be educated on the following matters; What are the issues? What are the benefits of participating? How to participate?

The market facilities discussed above are interesting considerations, however would only be utilised by sophisticated market participants. Other technological solutions including maximum demand switches and tariffs and direct load-controlling infrastructure provides significant opportunities for greater participation by smaller consumers.

Interval Meters

Business SA believes that the key enabler to facilitating DSM is the mandated rollout of interval meters. Without the availability of this technology it is impossible to provide appropriate pricing signals to consumers and to also reward consumers for good behaviour.

On this basis, we believe that (assuming the cost and sophistication of service issues are resolved) a mandatory rollout of interval meters should proceed on four levels:

- Voluntary rollout to customers best placed to make immediate benefits of new incentive based products from retailers (as is already being done with smart meters for Tranche 4 consumers and up),
- Upon churning of electricity retailer,
- New building Code requirements for new buildings and major board upgrades, and
- Regional staged rollout.

Business SA believes that there has been significant discussion of issues pertaining to a mandatory rollout of interval meters and issues relating to service have been appropriately discussed and understood by stakeholders. With regard to the cost of the metering, there is a wide variety of options now available ranging from TOU optical-reading devices for accumulation meters to basic non-communications enabled interval meters to smart meters.

Additionally, there has been significant resolution on cost alternatives ranging from owner-buyer to distributor ownership and amortisation periods. However it is important that upon a decision being made on a rollout of interval meters, all jurisdictions agree on a standard meter to ensure national consistency of data and functionality.

Considering that domestic air-conditioning is the cause of many of the problems that are currently being experienced in the NEM, it seems only appropriate that TOU meters are applied to consumers. However the benefit of TOU meters is derived if innovative tariffs such as TOU or maximum demand tariffs become available. The aim of this technology would be to promote a wider variety of tariff options including TOU tariffs, maximum demand tariffs and other tariffs to encourage greater demand side participation. Business SA believes that the Government can have an impact by encouraging retailers to pursue and rollout new, innovative energy tariffs coupled with education regarding control of domestic air-conditioning as well as energy performance levels of air-conditioning systems and residential planning issues.

Additionally, the current statewide pricing in South Australia model promotes the maintenance of cross-subsidies between peaky and flat load consumers as the loads are equalised between the two. TOU meters, tariffs and the introduction of other DSM related technologies that promote increased end-user participation in the market by consumers would be considered as a positive by Business SA.

Finally, there are further benefits of interval meters including identification and resolution of power factor issues to improve to efficiency and effectiveness of the network and improved network planning and distributor DSM.

Business SA has, and will continue to, lobby for the full, statewide rollout of TOU meters as we believe that TOU meters are the primary means of providing consumers with appropriate pricing signals to impact on DSM. There has already been enough work undertaken on considering interval and TOU metering and believe that it is time for action. The reality is to achieve better DSM outcomes, TOU meters must be incorporated, without which DSM is impossible.

Retail Pricing

Business SA believes that it is only appropriate to establish regulated prices for electricity consumers in circumstances where market failure can be demonstrated. Therefore there was a case for regulated price setting in South Australia for the last tranche of Full Retail Contestability customers at a time when there was minimal market competition. However the price setting mechanism included an incentive through retail headroom, to encourage retailers to enter the market. This model was successful as demonstrated by the entrance of a number of new retailers in the market and a downward pressure being placed on retail prices. Despite this change, there still must be a shift in public attitude from cheaper

contracts to cost reflective pricing. Indeed to develop this concept further “the cheapest kilowatt hour is the kilowatt hour not used”, leading to the introduction of general energy efficiency discussions.

On this basis, we believe that the only principle that would be appropriate to guide regulated price setting is whether the market is failing or not, which is a reflection of the levels of retail competition. Additionally, we believe that the imposition of price capping is not a decision to be made lightly or by political will. The NEM is a new market and as with all new markets will take some time to mature. To provide restrictive mechanisms on the market will prevent the growth of competition. A prime example is in South Australia where the fairly applied price regulation promoted competition as opposed to restricting it.

In contrast to price capping options, governments should consider policy that promotes the longer-term competitive development of the NEM. A second-tier social policy should be formed around this to provide subsidies, where appropriate, to the most vulnerable members of society. This provides a safety net for those that need it and provides the market with appropriate stimulus for increased efficiency and competition. However, where a price cap exists, it should be reviewed on a yearly basis by an independent body, and consideration should be given to increased levels of retail competition, not just price but the number of differentiated products on offer to consumers.

Business SA would encourage all mechanisms to deliver greater information to consumers to improve the current asymmetry of knowledge. While Business SA would preferably support the private sector delivery of services of this nature, we accept that in the absence of these services, the Government should deliver them. With regard to the website model discussed, the services delivered should include price and load usage modelling, suggested load shifting recommendations and other educational information, including the electricity use of common household appliances and their hourly electricity costs. However, this delivery model must be tied into an educational campaign conducted by local industry and community organisations, in conjunction with Government.

Yours sincerely



Peter Vaughan
Chief Executive Officer