



Commerce Queensland

QUEENSLAND'S CHAMBER OF COMMERCE AND INDUSTRY

Submission from Commerce Queensland to

User Participation Working Group

Ministerial Council on Energy Standing Committee of Officials

In regard to the paper

Improving User Participation in the Australian Energy Market

April 16th, 2004

Commerce Queensland is pleased to provide the following comments on the Discussion Paper.

Executive Summary

Given the recognised issue of the inadequate level of user participation in the Australian energy market, Commerce Queensland generally supports the proposals in the paper, to achieve the aim of increasing member participation in the market. The concept of attempting to achieve that increased user participation by encouraging users to be actively involved in the outcomes of the key elements of this paper, is generally supported by Commerce Queensland.

However, the proposal in the Paper in regards to user participation seems limited to the three key elements ie Demand Side Response (DSR); Interval Metering(IM) and Retail Pricing(RP) and there seems to be little suggestion of the development of a comprehensive strategy to more broadly engage users in the participation process. Commerce Queensland is of the view that any specific activity aimed at improving user participation in the energy market, should be an integral part of an overall strategy or model, designed to address the user participation issue holistically.

Commerce Queensland therefore, recommends that a more structured and comprehensive plan be developed to accurately identify the key issues and elements relevant to the issue of insufficient user participation in the Energy Market, than what is being proposed around DSR; IM and RP in this paper. This would include key facets such as structure, conduct and performance initiatives and processes required, using an integrated Federal, State and Regional format.

In regard to the paper's proposal on DSR, Commerce Queensland supports in principal the SCO proposal **“to commission further work to examine the feasibility of an ‘aggregation facility’, taking into account the results of the Energy User’s Association of Australia’s (EUAA) demand aggregation trial”**.

It is also suggested that given anecdotal feedback to Commerce Queensland about potential interest in individual approaches to DSR, any review of DSR opportunities should include the exploration of other options – even if some of these options could be considered as ‘introduction level’ options for DSR participants, who perhaps may commence DSR involvement with an individual scheme, but ultimately move to a more sophisticated scheme/s when knowledge and confidence grows.

The IM recommendation within the paper proposes **“an assessment of the benefits derived from the existing interval meter stock to provide information on areas where benefits of interval meters can be enhanced and which additional customer classes may benefit from greater application of interval metering technology”**, is also supported in principle by Commerce Queensland. User evidence supports the broader use of IM's in principle - although the question of cost responsibility in relation to these meters is still an issue with users.

Commerce Queensland supports the proposal **“to develop an overarching set of policy principles, which will guide all governments, to ensure transparent decision making on retail price regulation issues, across all jurisdictions”**.

Commerce Queensland's members generally wish to see the Energy market operate as a far more competitive market, one with more users in the contestable market, than now. It is also important to note that Commerce Queensland wishes to see the Government's role in the market being limited as much as possible to ensuring that an ‘umbrella’ of protection is afforded to those participants in the market, who still require that protection i.e. those who would be disadvantaged in the contestable market versus their current tariff arrangement. Given that there are benefits to the broader market having more rather than less users in the competitive market, this financial underwriting should still make commercial sense.

This protection extends to ensuring that other policy or regulatory changes should benefit users and not disadvantage them and Commerce Queensland wishes to see the ultimate commercial choice re each member's decision to remain on tariff or switch to the contestable market, remain with the user. This of course places responsibility on those involved with the review of these (3) key issues, to ultimately propose an overall arrangement for users, that the users find sufficiently attractive to change their behaviours and methods.

This point in itself reinforces why users need to be heavily involved in any review process, because it will be the user, who ultimately decides just how competitive and efficient the market will be.

Introduction and Background

Commerce Queensland has 4500 member organizations throughout Qld, some of which are themselves industry associations. These members account for the representation of approximately 40000 Queensland businesses, ranging from very small to very large energy users.

Despite the limited time available for specific consultation on the paper with users, given our ongoing work in the energy area in Qld, with and on behalf of our members, COMMERCE QUEENSLAND is well placed to offer comment on behalf of Qld energy users on the matters contained in the paper.

In regard to this process therefore, in view of the timelines available, it was decided that a limited consultative approach be adopted. This process involved direct individual contact by telephone with a number of users of different sizes, industry type, geographical location, levels of sophistication and contestable / noncontestable users.

Information and comment derived from this process and supported by previous work with our energy Committee and members generally, make it possible for Commerce Queensland to provide the views given in this paper.

Commerce Queensland acknowledges the assistance given by the Advocacy Panel, NECA and its Chair Mr Adam Bisits towards the preparation of this submission.

User Participation in the Australian Energy Market

MCE has stated :

“¹The active participation of both energy users and suppliers is important to achieves an effective competition and maximise the benefits of market reform. It is generally recognised that user participation in the energy market is currently less active than supplier participation”

The concept that balanced user involvement in the market, alongside suppliers, is required for effective market development, is a critically important acknowledgement. As such, Commerce Queensland commends MCE for this recognition.

The work proposed therefore by SCO, that user involvement can be achieved or improved by encouraging user involvement in DSR activity, with its associated IM and RP issues, has some merit. From Commerce Queensland's perspective however, the paper does not adequately convey a sense that the DSR user initiative is part of a long term, comprehensive, integrated user participation plan.

Whatever approach is taken to improving user involvement in the market, success will not come easily or quickly – regardless of how that ‘success’ is measured. Nor will that success, from Commerce Queensland's perspective, be achieved purely as a result of a DSR program only.

COMMERCE QUEENSLAND, being an organisation experienced in member communication, consultation and training, urges the SCO to consider following a far more strategic and integrated plan to developing a comprehensive user participation process. This approach would be very comprehensive

¹ Ministerial Council on Energy Report to COAG on Reform of Energy Markets – 11th December 2003 – page 11

and include DSR development activities within its far broader scope. Some key features of the plan would be:

- A start point where we identify why users aren't involved sufficiently and then design of an appropriate plan of response can be developed
- Involvement of user representatives from the beginning
- A medium to longer-term process
- A number of features including: funding for parties involved, capacity building, education/training, formal communication processes
- A planned process with adequate reporting on progress and activities
- Visible and supported at the highest level within the reform process
- A strong strategic communication model

We would like to make the following observations:

Firstly, the makeup of the SCO 'cross-jurisdictional working group', does not include any user representatives.

Secondly, the failure of the proposal at the recent meeting of State Energy Ministers to establish a CEO User Advisory Panel to work with SCO/MCE on an ongoing basis, is in consistent with the stated objective of improving user participation in the market.

Thirdly, the recent series of consultative forums conducted by the SCO, designed to involve market participants, seem to have attracted few if any end users directly.

Fourthly, users spoken to by Commerce Queensland demonstrated little if any knowledge of the SCO/MCE process or its existence.

Fourthly, the SCO/MCE process has shown itself to be severely constrained in terms of time and resources.

The above requires little comment other than to say, in order to achieve increased user involvement in the market, rhetoric must match outcomes from the very start of the process, if credibility and legitimacy is to accrue to those driving the change..

Commerce Queensland would be pleased to assist SCO/MCE further in the development of this energy user participation process.

Demand Side Response Market Mechanisms

There is no doubt that the current high levels of growth in demand and energy requirements generally in the NEM, is proving to be an enormous challenge for not only governments and energy market participants, but also for the broader Australian community generally.

Business and population growth and in particular, rapid uptake of household air-conditioning, are perceived to be the key reasons. In fact, a recent Queensland newspaper report proclaimed that in regard to electricity load growth in Qld, a ²“13.9 per cent rise in power demand over summer was double Energex' forecasts”. The article goes on to largely attribute the growth to the impact of growth in air-conditioner installation. Similar reports have recently been seen nation wide.

In particular, air-conditioning because of its particular impact on the market's load profile, is causing great concern in terms of likely implications to electricity network infrastructure across the Nation. Of particular concern is that the nature and use of air-conditioning tends to put extreme pressure on network infrastructure and generation, for a demand across a region that occurs in a relatively small percentage of the time that the system is in use.

² “Extra Power slug looms” – The Courier Mail – Sean Parnell and Liam Walsh – Tuesday April 13th – page (1)

The fundamental notion that by creating a market activity (DSR) that encourages less use of air-conditioning rather than more - by targeting users - is a key part of an overall Demand Side Response or Management process. Clearly, if successful, significant capital expenditure on infrastructure may be avoidable. Indeed, as seen from the EUAA's "A Demand Side Response Facility for the National Electricity Market" paper, evidence suggests that not only is additional infrastructure investment potentially avoided, but environmental outcomes are achieved through less coal being used to generate power; less electricity 'transport losses' being incurred; potentially less adversely affected market participants occurs due to likely diminished volatility; potentially less network constraints; potentially less generation plant failures and of course less cost to the end user because energy consumption is reduced.

Currently most users who participate in Demand Side activity, are relatively small in number, as shown by Nemmco's SOO for 2003 i.e. 526 MW identified of which only 295 MW could be considered as firm. Compared with an estimated³ 44772 MW of Generation in the Australian market, this is a meagre amount and clearly something that would likely have scope for improvement.

On the basis of Commerce Queensland's discussions with users we make the following summary comments regarding DSR.

- 1) Very few users have practised DSR and most know little about the concept.
- 2) When DSR *is* practised it is typically via a 'sharing' arrangement with a Retailer.
⁴ "Electricity Retailers are better placed than NSP's to develop demand management because of their more direct relationships with customers" although as this paper supports, NSP's are a key player in determining⁵ "when and where specific demand management options are pursued instead of network augmentations"
- 3) When practised, it can and often does involve a 'pool exposure' arrangement via the Retailer (thus avoiding potentially onerous prudential requirements for the user if it were to become a direct participant itself.⁶ "To do this, the consumer needs to meet a number of technical and financial conditions associated with being a market participant" eg Yamasa Seafoods – Vic).
- 4) It is an initiative that usually takes considerable time and discussion to negotiate and agree.
- 5) It is almost always an individual user/Retailer arrangement currently – not aggregated.
- 6) Some of these arrangements are quite sophisticated involving not only Financial instruments like caps/floors, but often with 'smart' technology eg that connects Nemmco's data feeder with the user's Plant control system thus potentially allowing automatic switch off or signalling at predetermined price points.
- 7) In some industries, DSR is not considered practicable eg Coal – although at least (1) major Coal company has a DSR arrangement in place with its retailer, around water pumping.
- 8) Anecdotal evidence suggests that the best candidates for DSR are large industrial businesses with clearly defined and predictable manufacturing processes eg Chemicals, Mineral processing; Cement; Industries that rely or have significant components of pumping activity eg water, sand, waste etc. These are also typically large users (but not always) where usually a significant component of overall load can be 'dropped off' for reasonable periods.
- 9) Most customers are very focussed on core business activities and are concerned about 'interrupting' the purpose of the business for DSR reasons – hence many haven't traditionally considered DSR. This suggests the current rewards are seen as being inadequate.
- 10) Most users (who usually aren't DSR practitioners) see 'switching off' more as way of reducing costs than creating revenues – an energy management or efficiency approach perspective.
- 11) Most customers seem interested in the EUAA proposed aggregation approach when briefly explained, but concerns were raised about potential dilution of benefits for themselves, should they become involved in an aggregation approach.
- 12) Most users, in regard to the aggregation approach are concerned about the apparent complexity, co-ordination, flexibility and ultimate individual incentive to participate in such an approach – but still state a desire to know more about it and indeed have it investigated more..

³ "Australian Special Report - Australian Electricity Sector: At That Awkward Adolescence Stage" March 2004" Fitch Ratings – Corporate Finance - Generation - page (15)

⁴ "Demand Management and the National Electricity Market" Next Energy – February 2004 – page (6)

⁵ "Demand Management and the National Electricity Market" Next Energy – February 2004 – page (6)

⁶ "Pay as bid Mechanism – A scoping study" – Firecone – June 2003 – 2.2 Current Arrangements – page (3)

- 13) At least one partnership example of DSR, is currently being explored between a major Council and its local NSP.
- 14) There is anecdotal evidence to suggest that some NSP's do not see a regulated incentive, sufficient to initiate DSR developments.
- 15) Almost stating the obvious, if a DSR process is to work, users require a reasonable financial incentive to participate; a reward that is clearly far superior to process interruption cost; a simple and certain process; one which is regular without being too frequent; one that allows flexibility to participate or not, as each opportunity arises

Overall, although most users who are practising some form of DSR, lean more toward the individually negotiated approach initially, when discussed further, the aggregation concept does create interest to the extent that there is support to conduct further study along the EUAA Aggregation lines. It is worth stating however, that both forms of DSR should be considered as being worthy of further review and promotion to users as DSR alternatives. This is particularly the case for those customers who already have an effective DSR process in place. This is even more so the case when users have already dedicated substantial time and financial investment in their current DSR process.

All users spoken to expressed the view that an appropriately designed and delivered DSR Training programme would be required if any sort of DSR initiative was to be launched. Once again, Commerce Queensland would see this process of being integrated within the energy user participation plan.

In regard to the 'pay as bid mechanism' as proposed by Firecone, Commerce Queensland is of the view that the aggregation concept is of far more interest. Commerce Queensland would suggest that in regard to the 'pay as bid mechanism', that it also be included as work for further review – achieved by inviting user appraisal – but that the majority of further effort be given to the aggregation concept.

The final point that should be made is that DSR by itself is but one approach (albeit potentially very effective) to some of the issues highlighted in this paper. Other concurrent activities should be encouraged eg the development of more energy efficient air-conditioners; exploration of different fuels to run air-conditioning units eg gas; greater support and emphasis on sustainable development codes for construction of homes and commercial buildings; etc.

Fundamentally therefore, Commerce Queensland supports the SCO proposal "to commission further work to examine the feasibility of an 'aggregation facility', taking into account the results of the Energy User's Association of Australia's (EUAA) demand aggregation trial".

Interval Meters

In the paper on Joint Jurisdictional Review of the Metrology Procedures – Draft Report – December 2003, the ACCC is quoted:

⁷ "...the Commission is not convinced that the full benefits of competition will be delivered in the longer term without a move towards interval meteringthe Commission considers that ...only interval metering , not profiling, will provide the potential for signals to encourage demand side responsiveness and innovative retail tariffs, thereby leading to more genuine retail competition."

This quote directly links Interval Metering with DSR and retail competition. By extension, it can only be presumed that the absence of IM is effectively an impediment to competition. If we accept that to be true, we can only conclude that the Qld market is some distance away from acceptable retail competition.

This conclusion is reinforced, when we look at some basic Qld market statistics.

⁸Data from a recent QCA publication, it reveals that in the case of Energex, approx 62% or 11000 GWh of total sales to customers (excluding embedded generators) was to tariff customers – ie

⁷ ACCC - Determination on Full Retail Competition and Registration of Code Participants – August 2001, page (19)

⁸ QCA publication "Electricity Distribution Businesses' Financial and Service Quality Performance 2002-03" – March 2004 – pages (7) & (22).

customers generally without IM's and therefore customers with very limited ability to participate in any DSR initiatives. In the case of Ergon Energy, the equivalent figure is approx 63% or 8000 GWh.

This impact therefore, of these statistics, is that this significant lack of contestability in Qld is a severe inhibitor to true retail competition in that market or the potential DSR activity proposed.

Interestingly, after some 'sensitive' Energex papers were reported upon in the press just recently, it has been suggested that Energex⁹ "is also considering so called 'smart meters' to allow for different rates to be charged at different times of day and allow Energex to switch off household air-conditioners when network demand peaks".

Given that the report is a newspaper report only, caution must be exercised when reading the suggested path of Energex. Indeed, the – Ergon Network – is quoted in the paper on "Joint Jurisdictional Review of Metrology Procedures – Draft Report December 2003 – as having¹⁰ "concerns in relation to a mandated roll out of interval meters".

That same report, in regard to the IM rollout issue, provides a Draft Recommendation that such a rollout should not occur until each jurisdiction has reviewed the costs and benefits of such a meter rollout, using a framework proposed within the same report.

We concur with that recommendation, but at the same time would like to see small business users with the ability and opportunity to participate in DSR activities – even if they do remain on tariff. If those same customers were to enter the contestable market and have IM's installed, Commerce Queensland would want wish those 'protected' by policy or legislation to the extent that they are not any worse off financially in the contestable market – particularly if they have been actively encouraged to enter that market.

Business generally supports the view that IM's are potentially of great value to users and the market alike and in principle support all users having same – but only if protected as already outlined. The cost issue of course, is key. Little feedback has been received at this point.

Users also agreed in principle, that if load controls could be instigated for air-conditioners – similar perhaps to the 'ripple' control the Qld GOC's have in regard to customers on tariff 31 for 'hot water', then that approach is likely to be more effective than if users determine when to switch off themselves.

Further however, users did say that for such a system to work, clearly detailed and pre-agreed incentives and arrangements would need to be in place, before the DNSP load control arrangement would be effective.

In summary therefore, Commerce Queensland supports the IM recommendation in principle, that **“an assessment of the benefits derived from the existing interval meter stock to provide information on areas where benefits of interval meters can be enhanced and which additional customer classes may benefit from greater application of interval metering technology”**,

Retail Pricing

¹¹“The MCE supports the further introduction of retail competition across the national energy market noting that its implementation must be guided by local circumstances, particularly the need to protect consumers.”

Fundamentally, the above quote probably summarises Commerce Queensland's position on Retail pricing – particularly for

⁹ “Extra Power slug looms” – The Courier Mail – Sean Parnell and Liam Walsh – Tuesday April 13th – page (1)

¹⁰ Joint Jurisdictional Review of Metrology Procedures – Draft Report December 2003 – page 66

¹¹ Ministerial Council on Energy Report to COAG on Reform of Energy Markets – 11th December 2003 – page 12

those customers who are still on tariff and looking to enter the contestable market and the protection that should be afforded those customers when entering the competitive market.

Clearly with less than 50% of Qld's load being contestable, substantial improvement is still available in terms of Qld retail competition. Indeed, approximately 2-3 years ago, the Qld Government released a paper looking at a study of potential FRC in Qld and found that ¹²“based on the analysis undertaken, the costs of FRC clearly exceed the benefits” for Qld users.

It is not known when this FRC issue will be revisited, but in the meantime the Qld Government on 1st July 2004, will lower the contestability threshold to 100MWh, thus introducing an estimated additional 8000 new users to the market, many of whom will more than likely remain on tariff, despite the competitive option. Although this proposed ‘opening’ does potentially improve the intensity in competition in Qld, it is still nevertheless a long way from being able to be described as a fully competitive market.

In relation to regulator issues, Commerce Queensland supports the view that in keeping with the NEM philosophy, regulators should be far more consistent in their behaviours whilst still maintaining an ability to apply standard methodologies across jurisdictions. This applies to pricing principles; whether Regulators use Revenue caps or some other base methodology; choice of Asset models; choice of Risk free Return rates; etc etc. It also extends to Service Quality measures, Reliability and Customer Service standards. Commerce Queensland maintains that in principle, this goal for greater consistency between and across markets is still a fundamental goal of the still deregulating energy markets. There is every hope that this can still be substantially achieved in the short to medium term.

The jurisdictional regulators at the Utility Regulator Forum (URF) is should be designated by SCO/MCE to achieve some of the progress required. This could be done with not only SCO/MCE involvement, but also with the involvement of users / user associations like Commerce Queensland. In particular, the fundamental purposes of the URF are, is to ¹³“by acting as a focal point for regulators in different jurisdictions the forum seeks to :

- foster understanding of issues and concepts faced by regulators in similar industries
- minimise overlap of regulations for large users who operate across jurisdictions
- provide a means of exchanging information
- enhance the prospects of consistency in the application of regulatory functions

In regard to market information for users, we note that little information is sent to users and is mainly sent by retailers or user associations such as Commerce Queensland. Users feel that this is appropriate but more information should be provided by Government on polices such as contestability and on regulation.

Website comparators are seen as valuable by users but can only be established by retailers not by Government. Information on these sites should include each element of a price offer – including network charges, losses, energy prices and components and other regulated charges. Key terms and conditions of each offer, even if the offer is only indicative, should also be highlighted. Such as price firm under FM events, the charging of REC's, etc. These facilities should be developed in conjunction with users.

Generally, users feel that the role of government is to let the market operate as ‘freely’ as possible with the Government/agencies to intervene when a user or class of user requires protection. For example, protective devices like tariffs should be reviewed regularly, so as to ensure that as much incentive as possible is given to customers to enter the contestable market.

It is regrettable from a free market perspective, that tariff protection requires cross subsidies and averaging of costs as a principle of pricing. From a user association perspective, we acknowledge the desirability of open and competitive markets. However, there must be protection provided in some way

¹² ‘Report on the Review of Costs and Benefits of Full Retail Competition in the Queensland Electricity Industry’ – Qld Office of Energy Web site - page (3)

¹³ National regulatory reporting for electricity distribution and retailing businesses – Discussion paper – March 2002 – page ii.

for that small number of users, who would be otherwise worse off, if they were forced to enter the contestable market. Until we more formally engage users on RP matters, or indeed DSR or IM, planning processes and activities need to include users so as to ensure that their needs are understood and are reflected in the outcomes of the planning process.

Commerce Queensland therefore supports the proposal “to develop an overarching set of policy principles, which will guide all governments, to ensure transparent decision making on retail price regulation issues, across all jurisdictions”.

Conclusion and Summary

To achieve a balanced competitive market, users as well as suppliers must be effectively engaged in the general market development process, in numbers. Given that in the NEM a large number of users are still not contestable for various reasons, the broader social and business community is being denied benefits that would inevitably flow from a more competitive market.

This is an issue in which Commerce Queensland would like to be more involved, with and on behalf of our members.

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