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Dear Ms Schofield

Improving User Participation in the Australian Energy Market

NRG Flinders offers the following views and comments in response to the Discussion Paper issued by the User Participation Working Group of the Ministerial Council on Energy Standing Committee of Officials in March 2004.

Demand Side Response

The Working Group has identified various options to seek to improve the level of effective demand side participation in the wholesale electricity market, including the potential for pay-as-bid mechanisms, in the interests of moving from a supply-side focused market towards a genuine two-sided market.

To the extent that such options for greater direct demand side participation are to be considered, in order to ensure more meaningful and even-handed participation, it is important that demand side bidding should be subject to the discipline of the same disclosure and bidding obligations as supply side participants.

This would achieve the essential transparency and equity needed to support a truly two-sided market. In the absence of such rules, a growing level of demand side participation at the wholesale level will pose increasing practical difficulties, including challenges for physical market management and dispatch processes, and will increasingly undermine demand forecast accuracy across the NEM. The potential for market gaming through demand side bidding behaviour may also increase, if such participation is to be subject to none of the structures applying to supply side offers.

The broader implications of increased demand side participation also need to be considered, noting that one of the perceived benefits of such measures is the moderation of spot market price outcomes, particularly ‘price spikes’. While the reduction of peak demand can provide valuable cost benefits from a network perspective, from an energy perspective the long-term benefits are less clear cut if the impact is to reduce average pool prices and thereby weaken price signals and investment incentives. Extreme price events make an important contribution to energy prices from a supply perspective, noting that average prices at present remain below levels necessary to encourage investment by new entrants.

Clearly the energy-only design of the wholesale market needs to be considered, given that all investment returns must be earned through the electricity spot market and associated financial contract market. Ultimately, a contingency reserve market or capacity funding mechanism may need to be considered if the impact of new demand side measures is to moderate prices such as to weaken the incentive for investment in capacity, particularly peaking generation.

Interval Meters

A steady transition towards interval metering might be regarded as the logical outcome in the progressive introduction of competition into retail energy markets, the removal of cross subsidies in tariff structures, and ultimately the empowerment of electricity consumers.

In this context, load profiling can be seen as an interim settlement solution which provides a transitional step on this path. From a practical perspective, an interval metering solution may ultimately become necessary to support global settlement in the NEM, as retail competition erodes the market share of host retailers and increases the difficulty of applying the present partial settlement methodology.

Against this background, it would appear appropriate to continue to investigate and pursue the potential benefits of more widespread application of interval metering to ensure the delivery of the full benefits of the NEM.

Retail Pricing

NRG Flinders concurs with the dangers and pitfalls the Working Group perceives in entrenched retail pricing controls in a competitive market. Unnecessary controls hamper the development of competition, discourage investment and innovation, increase uncertainty for industry participants, and ultimately make the need for pricing regulation self-reinforcing.

In any consideration of pricing regulation, the long-term interest of consumers should arguably be the paramount consideration. In a contestable market, the interests of consumers are clearly best served through the development of effective competition as the optimum long term solution. Regulatory pricing controls should therefore be seen as a transitional measure only.



From this perspective, it could be argued that a medium term price path approach provides maximum certainty and transparency for industry, and limits the uncertainty, distorted incentives and short-term decision making created by frequent reviews and price resets.

NRG Flinders would therefore support the need for specific criteria to be developed and applied across the NEM to define the conditions necessary for pricing controls to be relaxed. This provides clarity and certainty for participants, and a transparent framework within regulation can be applied, recognising regulatory controls as a transitional measure to a competitive solution.

The suggestion of creating an information source on available tariff offerings has been identified by the Working Group, including interactive features such as on-line calculators. In this regard it is noted that the Essential Services Commission of SA has established both a web-based and phoned based price comparison service for the benefit of small South Australian electricity consumers. Ultimately, any information services adopted (such as a price comparison website) should be consistent across the market. There is also an argument that participation in such services should be voluntary for retailers, noting their strong incentive to participate in any event.

Yours sincerely

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