

**USER PARTICIPATION**

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**POLICY STATEMENT**

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**Ministerial Council on Energy  
Standing Committee of Officials**

**AUGUST 2004**

## **User Participation Policy Framework**

The Ministerial Council on Energy's Standing Committee of Officials has developed a user participation policy statement drawing on the *Improving User Participation in the Australian Energy Market* discussion paper and stakeholder consultation in March/April 2004.

The policy statement is consistent with the objective of improved participation of energy users in the markets and includes sections on:

- Consumer Advocacy;
- Market Mechanisms to Promote Demand Side Response in the NEM;
- Role of Interval Metering Technology; and
- Demonstration, Information and Capacity Building.

The paper includes an implementation plan that summarises proposed activities with indicative timelines.

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# USER PARTICIPATION POLICY FRAMEWORK

## Introduction

In its December 2003 Report<sup>1</sup>, MCE advised the Council of Australian Governments (COAG) on the need for further reform of the energy market to enhance active energy user participation. This will be achieved through further developing effective competition, which in turn maximises the benefits of reform and increases the value of energy services to households and business.

MCE agreed to examine the following:

- the scope to facilitate commercialising or establishing a demand side response pool in the National Electricity Market (NEM), taking into account the COAG Review's proposal for a 'pay-as-bid' mechanism and the aggregation facility trialled by the Energy Users' Association of Australia;
- the current work on costs and benefits of interval metering in the NEM; and
- in jurisdictions where full retail competition operates, to align retail price caps with supply costs and periodically review the need for them.

MCE Standing Committee of Officials (SCO) released a discussion paper in March 2004 *Improving User Participation in the Australian Energy Market*<sup>2</sup> and considered input from stakeholder consultation workshops and submissions to develop this policy framework and forward work program. Comments from the stakeholder workshops encouraged the scope of the User Participation framework to be expanded to include a review of consumer advocacy models that would lead to improved policy development and advocacy on behalf of energy consumers.

## Policy Framework

MCE notes that current energy reform initiatives will contribute to greater user participation in the energy market through the development of new market governance arrangements, streamlined regulation and improved price signals in the wholesale market. As such, user participation issues interlink with other areas of the MCE work program.

In recognition of these linkages and changing market arrangements, MCE considers the Australian Energy Market Commission (AEMC) an appropriate body to progress the development of more efficient retail price regulation. This will include the alignment of retail price caps with costs and periodic review of their need in jurisdictions where full retail competition operates. This approach will allow AEMC to take into account work underway to develop a national framework for distribution and retailing regulation, in particular, distribution pricing issues. Consequently, retail pricing regulation has not been included in the user participation forward work program.

MCE also notes that aspects of the user participation policy framework will need to take into consideration national work programs for embedded generation and energy efficiency, as well as the outcomes of the Joint Jurisdictional Review of Metrology Procedures.

MCE recognises that greater user involvement and the subsequent creation of a more innovative and responsive retail market is a long term policy objective. This framework recognises the

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<sup>1</sup> Ministerial Council on Energy; Report to the Council of Australian Governments; *Reform of Energy Markets*, 11 December 2003

<sup>2</sup> Standing Committee of Officials' User Participation Working Group, *Improving User Participation in the Australian Energy Market – Discussion Paper*, March 2004

difficulties associated with positioning consumers to become more active participants in the energy market, and that effective policy approaches need to be tailored to the specific characteristics of different customer classes.

Consistent with the objective of improved participation of energy users in the markets, MCE endorses a policy framework that will focus on consumer advocacy; a demand side response pool in the NEM; enhancing the role of interval metering technology; and information, demonstration, and capacity building projects. Each of these work streams is outlined in more detail in the following sections.

## **USER PARTICIPATION POLICY FRAMEWORK SUMMARY**

### **Consumer Advocacy**

- MCE recognises the need for more effective consumer advocacy arrangements in the Australian energy market and supports the development of proposals to improve existing arrangements.

### **Market Mechanisms to Promote Demand Side Response in the National Electricity Market**

- MCE supports the emergence of a demand side aggregation facility in the NEM.
- MCE does not support further work on a 'pay-as-bid' demand response bidding mechanism.
- MCE supports further investigations into a short term forward market.

### **Role of Interval Metering Technology**

- MCE endorses a future role for interval meters to facilitate greater user participation in a competitive national energy market and will investigate issues relating to interval meter rollouts and load control technologies. Responsibility for policy decisions on rollout of interval meters to remain with individual jurisdictions.

### **Demonstration, Information and Capacity Building**

- MCE acknowledges the need for consistent and clear consumer information through capacity building, demonstration and targeted information provision to support improved demand side response.

## 1. Consumer Advocacy

MCE recognises the active participation of both energy users and suppliers as important to achieve effective competition and maximise the benefits of market reform. COAG has also recognised the need for strengthened end user consultation in developing changes to market codes, as noted within the Australian Energy Market Agreement of 30 June 2004<sup>3</sup>. MCE believes the ability of consumers to participate more proactively in policy discussion and consultation processes will result in improved outcomes across the energy market.

MCE acknowledges the contribution the National Electricity Consumers Advocacy Panel has made to date in promoting the views of energy customers on issues relating to the NEM. However, effective and strategic consumer advocacy is required across the entire energy market to reflect the growing convergence of the electricity and gas markets. In addition, recent changes to market development arrangements mean consumers will increasingly be involved in complex policy and technical debates, and in market rule-making processes. MCE acknowledges that different customer classes currently have varying abilities to participate in these processes. As such, MCE considers the current advocacy arrangements require review to reflect the changing market and regulatory environment.

As an initial contribution to this debate, the Consumers Federation of Australia (CFA) recently commissioned a study by Allen Consulting Group<sup>4</sup> to review the emerging consumer advocacy needs of the energy market and identify the characteristics of a possible institutional model to perform this advocacy function. The study highlighted the pressure on small consumers to be actively involved in policy processes determining the future direction of the energy market and recommended small consumer advocacy arrangements be institutionalised with dedicated resourcing to assist representation of their interests in the national energy market. This report provides a useful starting point for considering the options for a new advocacy structure.

MCE agrees to the following action:

*1.1. Consumer Advocacy.* Assess existing consumer advocacy arrangements and develop a workable institutional model to take account of the changing advocacy needs of the Australian energy market. *[February 2005]<sup>5</sup>*

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<sup>3</sup> Council of Australian Governments, *Australian Energy Market Agreement*, 30 June 2004  
<<http://www.mce.gov.au>>

<sup>4</sup> *National Energy Market Consumer Advocacy- Emerging Needs and Institutional Models*, 30 June 2004 Final Report to Consumers Federation of Australia, The Allen Consulting Group

<sup>5</sup> This date is an indicative 'action completion' date.

## 2. Market Mechanisms to Promote Demand Side Response in the NEM

The current low level of end user participation in the NEM reduces effective competition and dilutes the benefits of market reform for energy consumers.

Direct participation should enable energy users to capture a greater share of the economic return achieved from reducing their energy consumption during high priced periods and network congestion. A market-based approach should allow buyers and sellers to capture the optimal value of the demand response at least-cost.

MCE considers that a flexible and accessible market-based demand side aggregation mechanism is an attractive proposition, as it creates a secondary market to flexibly manage delivery and payment for demand response products rather than requiring additional structural changes to the existing spot market mechanism. It is also a structure that is accessible by a broader cross-section of energy users. MCE considers the Energy Users' Association of Australia's (EUAA) demand aggregation trial an instructive model to consult when identifying potential impediments to the operation of a commercial facility.

MCE has further agreed not to proceed with work on the COAG Review's 'pay-as-bid' demand response bidding proposal. Preliminary work revealed a number of challenging design and implementation issues with no guarantee of higher levels of demand response in the NEM. A number of structural and compliance issues impose an additional element of market risk and undermine its usefulness as a mechanism to induce direct end-user participation in the wholesale spot market. As such, the proposal does not appear to present the most efficient or least-cost approach to improving overall user participation levels.

MCE notes that South Australia has engaged a consultant to investigate the feasibility of a short term forward market in facilitating demand side bidding in the wholesale market. A number of markets use a multi settlement approach, where demand side and supply side both bid and settle in a day ahead market, otherwise known as a short term forward market. A voluntary short-term forward market has the potential to:

- assist demand side response by providing a framework for demand side resources to have greater certainty regarding the benefits that could be gained from load reduction; and
- assist the market to arrive at an efficient balance between committed generation and expected demand.

MCE will consider the need for further work pending the outcomes of South Australia's report. Consideration will also be given to extending short term forward market work to include gas and progressing this work in the gas market development program.

MCE agrees to the following actions:

*2.1 Aggregation Facility.* Undertake a more detailed study of an aggregation facility, in particular focussing on the impact on the physical and financial market operations. *[March 2005]*

*2.2 Removal of Regulatory and Market Barriers.* Develop and implement a demand side response action plan to identify and remove any regulatory, market and technical impediments for demand side response, with opportunities for stakeholder involvement. *[May 2005]*

*2.3 Short Term Forward Market.* Develop a forward work program pending the outcomes of South Australia's investigation of a short term forward market. *[October 2004]*

### 3. Role of Interval Metering Technology

Use of interval metering and load control technologies remains limited in Australia despite its important potential role in developing an effective and efficient energy market.

Peak demand and load, which are increasingly driven by the growing penetration of air conditioners and other energy-using equipment in Australian households, are costly issues for the national energy market. Metering, complemented by remotely activated load control technology, other energy management technologies and the right price incentives, can moderate demand and load by assisting consumers to voluntarily manage their energy use, increase user participation, defer investment in new generation and network capacity, and contribute to a more effective energy retail market.

MCE recognises the important role of interval metering and load control technologies in developing a more efficient energy market with stronger user participation and improved energy use management. MCE endorses further deployment of advanced interval metering technology as a long-term goal for the efficient development of the retail market. However, MCE also recognises the need for a sound understanding of the costs and benefits associated with an interval meter rollout.

MCE agrees to the following actions:

*3.1 Common Principles for the Assessment of Interval Meters.* Develop common principles for cost-benefit analysis to be used across jurisdictions for future assessments of interval meter rollouts including new meter stock investments and other technological and social aspects.

*[March 2005]*

*3.2 Jurisdictional Reviews of Interval Meters.* All NEM jurisdictions which have not done so, should review the use of interval meters and assess the relative benefits of an interval meter rollout by 2007

*[Beginning 2007]*

*3.3 Policy Consideration of Metrology Reviews.* MCE will consider the findings of the 2004 Joint Jurisdictional Review of Metrology Procedures and refer relevant findings to the Australian Energy Market Commission (AEMC) for incorporation in overall market policy.

*[December 2004]*

*3.4 Low Cost Load Control Technologies.* Commission a study to identify low cost load control technology and other technologies that could assist consumers in voluntarily managing their energy use.

*[April 2005]*

#### 4. Demonstration, Information and Capacity Building

Access to relevant, convenient and easy-to-understand consumer information and appropriate energy management skills are essential to facilitate greater end user participation in energy markets. While small and large energy users have different information and training needs, both groups, especially the small consumers, need easy access to appropriate information services. Barriers to larger business participation in the NEM include limited awareness of opportunities and lack of relevant commercial skills to facilitate their engagement.

The Australian Government's Solar Cities initiative provides a timely opportunity to demonstrate the potential role for user participation to deliver improved economic and environmental outcomes. Concentrated installation of solar technologies and energy efficiency options, together with smart metering solutions and effective price signals, will enable monitoring of energy usage patterns and stimulate demand side participation in response to changes in market conditions. Solar Cities will provide tangible and tested data on: the capacity to reduce peak electricity loads; customer responsiveness to time-of-use pricing; the benefits of innovative metering technologies; and barriers to market deployment of solar and energy efficiency applications. MCE will monitor the progress of this initiative, which will inform the development of future demand response policies for Australia's energy market.

MCE agrees that easily accessible, clear information on energy contracts and prices to enable informed comparisons is limited. Minimum standards for information disclosure will allow customers to compare consistent and accurate retail offers on a like-for-like basis enabling more informed decision making. In addition, there is a clear capacity and skills deficit inhibiting user participation.

MCE recognises that information requirements will differ across jurisdictions depending on the level of retail contestability.

MCE agrees to the following actions:

*4.1 Consumer Awareness, Information and Training Needs.* Conduct and report on a consultancy project to examine consumer awareness, information and training needs relating to the NEM and user participation. Pending the outcomes of the report, an action plan will be prepared to develop appropriate, targeted and relevant information to both small and large users.

[February 2005]

*4.2 Minimum Information Disclosure Standards for Small End Users.* Develop minimum disclosure standards and more user-friendly methods to compare contract offers on a like-for-like basis.

[May 2005]

## User Participation Working Group Implementation Plan – August 2004

A detailed work program has been developed to implement the user participation policy framework. Proposed activities are summarised below with indicative timelines.

User Participation Action Items		Aug 2004	Sept 2004	Oct 2004	Nov 2004	Dec 2004	Jan 2005	Feb 2005	Mar 2005	Apr 2005	May 2005	June 2005	July 2005	Aug 2005	Sept 2005	Oct 2005	Nov 2005	Dec 2005	Jan 2006
	Endorsement of the user participation policy framework and forward work program by MCE																		
1.1	Assessment of existing consumer advocacy arrangements and development of a workable institutional model.																		
2.1	Commission a more detailed study into the impact of a Demand Side Response (DSR) Aggregation Facility																		
2.2	Develop an DSR action plan for the implementation of a DSR Aggregation Facility																		
2.3	Report findings of South Australian consultancy into Short Term Forward Markets to SCO and consider the need for further work.																		
3.1	Development of common principles for consistent Cost Benefit Analysis of interval meters																		
3.3	Refer the findings of the 2004 Joint Jurisdictional Review of Metrology Procedures to the AEMC																		
3.4	Commission a Low Cost Load Control Technology Study																		
4.1	Commission a report to identify information barriers and training needs in the NEM and recommend an appropriate response and delivery mechanisms																		
4.1.1	Implement delivery mechanisms and commission the development of training modules as appropriate.																		
4.2	Develop minimum information disclosure standards																		

Key: Linkages between work streams

