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# Energy Market Reform

## **User Participation Working Group Consultations**

Melbourne, 6<sup>th</sup> April 2004

Sydney, 7<sup>th</sup> April 2004

# Workshop Agenda

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- Energy Market Reform (EMR) progress update
- User Participation progress update
- User Participation Discussion Paper - issues for consultation
  - Demand Side Response
  - Interval metering
  - Retail pricing

# Workshop Agenda

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- User Participation - issues outside the scope of the Discussion Paper
- What's next for the User Participation Work Stream?
  - Submissions
  - Analysis of stakeholder input
  - key dates
- Workshop outcomes

# MCE Reform Program

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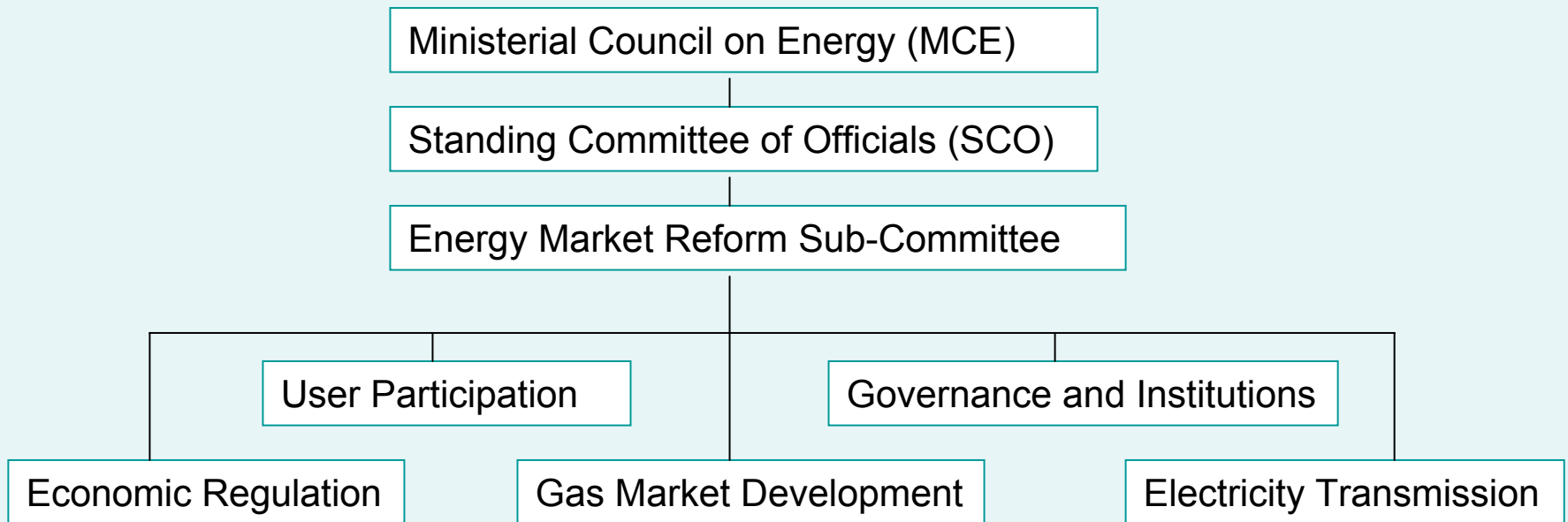
Agreed in December 2003:

1. Governance of energy markets
2. Economic regulation
3. Electricity transmission
4. User participation
5. Natural gas penetration

Implementation in 2004-06

# Energy Market Reform

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# Implementation - Management

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- Governance and Institutions [SA, NSW]
- Economic Regulation [Vic]
- Electricity Transmission [Qld]
- User Participation [Tas]
- Gas Market Development [NT]

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- Program Coordination [Cw]

# Progress: Governance & Institutions

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- Legislation: draft IGA and drafting instructions
- Levy: issues paper
- Code Change: streamlining position paper
- ACCC-AER-AEMC cooperation: MoU framework
- NECA: wind-up issues

## Next Steps:

- Finalise IGA (MCE meeting 2 April 2004)
- AER and AEMC Members (May 2004)
- Commonwealth, state/territory legislation (June 2004)

# MCE outcomes 2 April

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- IGA to be submitted to COAG out of session
- SCO to prepare an abstract of the draft IGA for public consultation on legislative and other aspects of reform
- Reaffirmed its commitment that the AEMC be established under South Australian legislation
- AER head office be located in Melbourne, with the code enforcement and market monitoring functions of the AER to be retained in Adelaide.
- In time and to facilitate the transition, small branch offices of AER will be established in most state capitals when distribution and retail regulation is phased in.

# MCE outcomes (cont.)

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- AEMC be located in Sydney.
- Funding for 2004-2005 to rely on existing funding mechanisms - state-based participation fees for AEMC as collected by NEMMCO (in lieu of NECA), and Commonwealth funding for the AER.
- Agreed to the development of a MCE gas market policy framework paper, outlining the expanded MCE gas program and that industry and users would be consulted in its development.

# Progress: Economic Regulation

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- Access: evaluation criteria for national access regime
- Distribution & Retail: consultancy to stocktake existing regulatory regimes, analyse differences

## Next Steps:

- Options for national access regime (initial consultation in August 2004, after PC Gas Access Regime Report)
- Issues paper on national distribution and retailing framework (initial consultation in July 2004)

# Progress: Electricity Transmission

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- Annual National Transmission Statement: commissioned NEMMCO to scope and develop
- Regional Boundaries: consultancy to review regional criteria and change process options
- Reg Test and Incentives: working with ACCC

## Next Steps:

- ANTS overview (April 2004); first ANTS (July 2004)
- Regional boundary review report (June 2004)
- Draft transmission code changes (June 2004)

# Progress: User Participation

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- SCO established Working Group – Tas, Vic, NSW and Commonwealth members
- Discussion paper developed in accordance with MCE report to CoAG

# Progress: Gas Market Development

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- MCMPR consideration of upstream issues
- Draft PC Report on Gas Access Regime
- Expanded scope for gas market development (MCE – 2 April 2004)

## Next Steps:

- Gas market policy framework (tba)
- MCE response to final PC Report (late 2004)

# Implementation - Consultation

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- All stakeholders, supply & demand side
  - association and company level
  - current market institutions
- MCE website
  - papers, consultation information
  - e-mail newsletters
- Position and discussion papers:
  - written submissions
- Stakeholder workshops and briefings

# Current Consultations

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- **User Participation**
  - discussion paper released 12 March
  - industry workshops on 6-7 April
  - written submissions due 16 April
- **Code Change, MoU Framework, Levy**
  - discussion papers released 19-22 March
  - industry briefings 23-24 March
  - written submissions due 7 April
- **Regional Boundary Review**
  - Terms of Reference released 27 January
  - industry forum 31 March

# Next Consultations

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- Intergovernmental Agreement (tba)
- Regional Boundaries (June 2004)
- Transmission Code Changes (June 2004)
- Distribution and Retailing (July 2004)
- Access Arrangements (Aug 2004)
- Gas Market Development (tba)

# User Participation Workshop

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## 1. Demand Side Response Pool

# Demand Side Response

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## Terms Of Reference

“MCE to examine options for a demand-side response pool in the NEM... taking into account ‘pay-as-bid’ mechanism and the aggregation facility....”

*MCE Report to CoAG 11 Dec 03*

“...include a demand reduction bidding option that would enable load reduction to be bid into the NEM for dispatch and payment in competition with generation....”

*CoAG Independent Review Dec 2002*

# DSR - 2 Market Mechanisms

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## 1. Pay-as-Bid:

- Physical market used to value DSR
- Load reduction bid by end users
- Paid on ‘as-bid’ basis funded by levy

## 2. Aggregation:

- Secondary market mechanism
- Brokering of small parcels of DSR
- Sold to range of interested parties

# DSR - Benefits of Market Mechanisms

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## Pay-as-bid

- Provides financial benefits for end users
- Moderation of price spikes

## Aggregation

- Financial benefits for end users
- Moderation of price spikes
- Value from wider range of customer classes
- Requires no change to spot market

# DSR - Impediments of Market Mechanisms

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## Pay-as-bid

- Range of technical requirements in NEC
- Structural mismatch in physical market
- Impact of levy uncertain
- May not attract additional response
- Participation by larger end users
- Possible market risks

## Aggregation

- Structural mismatch between DSR product & physical market
- Free rider impact on incentives
- Distribution regulatory treatment across jurisdictions may discourage
- NEC technical requirements

# DSR - Other Market Based Options

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## International Experiences

- US approaches to market based DSR of interest
- Direct bidding in day-ahead energy/ancillary markets and real time spot market facilitated by use of multi-settlement systems
- Contingency reserve market
- Mass market direct load control technology

# DSR - Proposed Policy Directions

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## Pay-as-bid

*No additional work at present.*

- What solutions might overcome design and implementation problems?

## Aggregation

*Further work to investigate feasibility and define role for government*

- Is aggregation a viable mechanism?
- Is the role for government appropriate?

# DSR - Proposed Policy Directions

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## End-User Capacity Building

- *Establish a capacity building program developing end user commercial skills*
- *Integrate work on embedded generation assets*
- *Tailored programs for small energy consumers*
  - What are appropriate mechanisms for developing end user demand side response commercial skills?

# User Participation Workshop

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## 2. Interval Metering

# Interval Meters

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## Terms Of Reference

“MCE endorsed the development of a discussion paper which would consider how interval meters:

- moderate consumption patterns during periods of peak demand;
- allow the development of economically efficient and cost reflective tariffs for more accurate allocation of supply costs to consumers;
- address settlement issues related to the net system load profile;
- facilitate improved network planning; and
- lead to the development of products and capabilities that would deliver the maximum economic benefits to consumers.”

*MCE report to COAG*

# Current Status of Interval Meters

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- Available to large consumers in the NEM;
- Available in some jurisdictions on a voluntary basis;
- Potential to provide a range of additional functionality in the NEM;
- There maybe market barriers to the introduction of Interval meters ;
- Potential social policy impacts;
- Jurisdictions have differing policy positions - not all have completed a review of Interval metering.

# Interval Meters: Proposed policy directions

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## *Review of the Effectiveness of Existing Interval Meters;*

- Do stakeholders support a review of the effectiveness of interval metering for large end users?
- What are the assessment factors and criteria that should underpin this review?

# Interval Meters: Proposed policy directions

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*Study on roll out of interval meters for particular customer classes;*

- What customer classes/market segments could benefit from a rollout of interval metering technology?

# Interval Meters: Proposed policy directions

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## *Investigate Low Cost Load Control Technology;*

- What lower cost solutions could achieve benefits for consumers?
- Is a remote load control program specifically targeting household air conditioning use supported?
- What technologies could facilitate an effective program?
- Is there evidence of a trend towards increased use of interval meters and TOU tariffs in the retail electricity market?
- What may prevent this trend from continuing?

# Interval Meters: Proposed policy directions

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## *Status Quo for Load Profiling:*

- Do stakeholders support the retention of load profiling subject to further assessment of the development of cost reflective tariffs?

# User Participation Workshop

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## 3. Retail Pricing

# Policy Context

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“ In all jurisdictions where full retail competition is operating, each jurisdiction to align their retail price caps with costs, and periodically review the need for price caps. ”

*MCE Report to CoAG 11 Dec 03*

# Policy Context

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- Regulated energy pricing should seek to balance commercial viability for retailers with consumer protection goals
- Legitimate and ongoing role for government
- Provide clear regulatory direction to allow informed and long term decision making

# Proposed Policy Directions

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- Development of guiding policy principles for decision making on retail pricing
  - What overarching pricing principles would be appropriate to guide regulated price setting?

# Proposed Policy Directions

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- Development of a consistent pricing methodology
  - What cost components need to be included in a consistent approach to setting price caps? Are existing price setting approaches appropriate to be applied nationally? If not, what improvements can be made?

# Proposed Policy Directions

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- Develop a framework for the review and assessment of retail price regulation
  - What methodologies do stakeholders consider appropriate for price cap review?
  - What do stakeholders consider as an appropriate timeframe for periodic price cap review?
  - What criteria are needed to develop a framework for a price cap review? For example, how do we define what constitutes an appropriate level of competition?

# Proposed Policy Directions

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- Providing appropriate consumer information to address information barriers
  - price comparison
  - consumer information websites
- What are stakeholder's views on the establishment of an electricity price comparison website? Who should be responsible for its development and administration? What information and functionality should be included in such a website?

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# What's Next for User Participation?

# Written Submissions

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- Written submissions are due COB Friday 16 April
- Five page limit
- Issues for consultation are listed on pages 22-23 of the Discussion Paper
- Published on the MCE website at the completion of the consultation process

# Future Work Program

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- User Participation budget
- Stakeholder submissions
- Consultation Report
- MCE policy decision
- Implementation

# Consultation Report

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- A report outlining stakeholder views will be prepared for SCO at the close of the consultation period.
- The consultation report will be used to develop a policy framework for SCO and MCE consideration.

# MCE Policy Framework

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- The User Participation Working Group will submit a policy framework to MCE in June 2004

# Stakeholder Involvement

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- Follow progress of the EMR project through subscription to bulletins  
[MCEMarketReform@industry.gov.au](mailto:MCEMarketReform@industry.gov.au)
- MCE website  
[www.mce.gov.au](http://www.mce.gov.au)
- Circulate workshop outcomes summary document