



AUSTRALIAN ENERGY
REGULATOR

GPO Box 3131
Canberra ACT 2601
Telephone: (02) 6243 1233
Facsimile: (02) 6243 1205
www.aer.gov.au

Our Ref: 50835
Contact Officer: Robyn Lowien
Contact Phone: 07 3835 4659

6 December 2013

The Honourable Mark McArdle MP
Minister for Energy and Water Supply
Queensland Government
Executive Building
100 George Street
Brisbane QLD 4000

Dear Minister

Submission on Queensland Government 30-Year Electricity Strategy Discussion Paper

We welcome the opportunity to comment on the Queensland Government's 30-Year Electricity Strategy.

The Australian Energy Regulator (AER) is Australia's national energy market regulator and an independent statutory authority. Our responsibilities relate mostly to energy markets in eastern and southern Australia. Our electricity functions include:

- setting the prices charged for using energy networks (electricity poles and wires) to transport energy to customers
- monitoring wholesale electricity markets to ensure suppliers comply with the legislation and rules
- publishing information on energy markets
- regulating conduct in retail energy markets in the Australian Capital Territory, New South Wales, South Australia and Tasmania under the National Energy Customer Framework.

Our submission focuses on the challenges listed in the discussion paper that closely relate to our regulatory role. These include:

- improving competition in retail markets; in particular, improving retail electricity markets in regional Queensland
- improving consumer engagement
- enabling improvements in metering services
- supporting consumer-focused reliability standards
- attracting investment in generation.

Improve retail electricity markets in regional Queensland

In addition to considering the move to a network Community Service Obligation (CSO), what other measures could bring the benefits of competition to regional customers?

We support, in principle, a change to the existing arrangements that support electricity customers in Ergon Energy's distribution area. At present, CSO payments are only available through Ergon Energy Queensland (EEQ), which is the retailer that services most customers in Ergon Energy's distribution area.

The Queensland Government has committed to examining options for improving competition in regional areas, including moving towards a network based CSO within three years. This means the Queensland Government could pay the CSO to Ergon Energy's distribution business, rather than EEQ. Such an approach could pave the way to introducing retail competition in regional Queensland, which we consider would have benefits for electricity consumers in those areas.

Of course transferring the CSO payment from EEQ to Ergon Energy is just one of the possible options for transferring the payment of the CSO away from EEQ. We refer the Queensland Government to work underway by the Australian Energy Market Commission (AEMC) and the Standing Council on Energy and Resources (SCER) on distribution network pricing arrangements.¹ SCER's rule change will consider proposed reforms to the way distribution businesses set and structure network prices. As part of its review, the AEMC will consider how the distribution network pricing principles should be adjusted to encourage distribution businesses to set and structure network prices on a more cost reflective basis, which will provide more efficient pricing signals to consumers.

If payment of the CSO was made through the distributor, this also raises a number of complexities and disadvantages. Under the National Electricity Rules, the AER is required to approve distribution charges that are cost reflective. Consequently, a CSO payment made through the distributor would need to account for these restrictions.

In practical terms, it is desirable for cost reflective price signals to be given to consumers to encourage them to properly value and, as a result, efficiently use the electricity network. Where a subsidy is to be provided, therefore, it is important that they are paid to consumers

¹ AEMC, *Distribution network pricing arrangements*, November 2013 – www.aemc.gov.au/Electricity/Rule-changes/Open-distribution-network-pricing-arrangements.html.

and can be clearly identified. An alternative approach that the Queensland Government could consider is providing a rebate or concession to customers directly, as this will provide much greater transparency of any subsidy.² There are practical difficulties that would need to be resolved to enable the Queensland Government to provide subsidies directly to customers, however, we consider that the direct subsidy approach is preferable in principle and would preserve pricing signals for efficient use of the network.

Improve customer engagement

What issues should the Queensland Government consider in developing a customer engagement strategy?

We support the Queensland Government developing a customer engagement strategy. Over the past twelve months we have substantially increased our consumer engagement as part of the AER's Better Regulation Program. We outline key learnings from this program below. In particular, we have pursued a range of consumer engagement initiatives to assist us and network businesses to better hear from consumers.

These initiatives include the:

- **Consumer Engagement Guideline for Network Service Providers:** provides a framework and our expectations for how network businesses engage with their consumers across their business activities and in developing expenditure proposals.
- **Consumer Challenge Panel:** newly established, the Consumer Challenge Panel will provide an independent consumer perspective to 'challenge' us and network businesses during the revenue reset process.
- **Customer Consultative Group:** advises us in relation to our functions under energy retail laws which affect consumers across participating jurisdictions. This Group is a legislative requirement under the National Energy Retail Law and was established in 2009.
- **Consumer Reference Group:** was established to facilitate consumer input into our 'Better Regulation' program which encompassed the development of numerous guidelines.
- **AER Stakeholder Engagement Strategy:** the framework sets out how we will engage with stakeholders in our activities and processes.

In our experience, it is critical that consumers have access to information about the energy services they use. Understanding their electricity bill and how to make informed decisions about their energy use are obvious examples of information critical to consumers making informed decisions about use of energy. It is clear to us more needs to be done. The Australian Energy Market Commission's (AEMC) is of the same view and noted in its

² Clause 14.7(e) of the Notice of amendment to the Australian Energy Market Agreement, 2 October 2011 - www.scer.gov.au/files/2012/05/Final-AEMA-as-amended-Oct-2011.pdf.

'Power of Choice' review that consumers are still limited in their understanding of energy use and the knowledge to make informed energy decisions.

Consumers can find energy markets challenging and many are yet to experience the full benefits that a competitive market can deliver. The complexity and structure of retail offers can make it difficult for energy consumers to make comparisons and exercise informed choices when entering into contracts. This complexity can deter some consumers from engaging fully in the market by lack of access to good information and high search costs. To this end, the AER has developed a price comparator website, Energy Made Easy. The website aims to help consumers make informed energy decisions by comparing electricity and gas offers to find a suitable energy offer. However the usefulness of the website is limited to information from participating jurisdictions.

We consider consumer education on the energy market and its regulation, as part of the engagement process, will improve consumer understanding and enable more meaningful engagement. The AER's Consumer Reference Group (CRG) commented that training is needed to help consumers understand regulatory issues.³ We ran a number of training sessions with the CRG on topics such as rate of return and regulatory incentives. These sessions were valuable to those participants in improving their understanding of complex issues and resulted in more comprehensive and meaningful input to the AER's regulatory processes.

Improving customer understanding of the energy market is also reflected in our Stakeholder Engagement Framework. We aim for stakeholders to have the opportunity to engage with us across a range of our functions. This involves keeping our stakeholders informed and tailoring our engagement strategies. Our goal is for stakeholders to be able to make informed and meaningful contributions to our activities. To this end, we are running a range of consumer activities for electricity distribution resets in Queensland, South Australia, New South Wales and the Australian Capital Territory. This type of engagement will be central to all our reset processes going forward.

From our consultation in developing a range of consumer engagement initiatives, we understand that consumers appreciate having a say in what they will be engaged on and how they will be engaged. Consumers want an opportunity to be heard and to receive feedback on how we or the businesses we regulate have considered their views and concerns. They also want to know whether they had any influence on our or the network businesses' decisions or aspects of their regulatory proposals.

The CRG provided practical insights about effective consumer engagement. Initiatives the businesses were doing well in their consumer engagement processes, included:

- multiple small group workshops
- employment of professional facilitators

³ AER Consumer Reference Group Minutes – Meeting No 1, 7 February 2013, p. 3.

- feedback to participants to follow-up on discussions.⁴

The CRG also identified areas of improvement, for example:

- information provision is currently one-way and content heavy. This makes it difficult for consumers to make constructive comments or contribute to the process
- consumers prefer the selection of focus groups to be independent
- engagement should be on an on-going basis, not just every five years before a revenue reset.⁵

The Consumer Challenge Panel is a new initiative supported by the Standing Council on Energy and Resources. Several panel members will work together on each electricity or gas business's revenue reset. The Panel will provide an independent consumer perspective to 'challenge' us and electricity and gas businesses during the reset process. The panel will advise us on issues that are important to consumers.

Another lesson we learned was consumers want to see a genuine commitment and continuous improvement in consumer engagement. Therefore, any engagement strategy must include a review and evaluation phase which addresses both the topic of engagement and method of engagement. Consumers also seek to be involved in this process.

We note the Consumer Utilities Advocacy Centre has recently released a report, 'Meaningful & Genuine Engagement'.⁶ The report aims to provide insights into effective community and consumer engagement, focussing on participation in energy and water policy and regulatory processes. The report documents the experiences of consumer advocates who have been involved in engagement processes. The key findings emphasise the need for a transparent engagement process with open communication and the participation of a diverse range of stakeholders.

Enable improvements in metering services

What issues does the Queensland Government need to consider in relation to introducing advanced metering?

We support the Queensland Government facilitating the introduction of advanced metering. This is in recognition that advanced metering will drive consumer and network benefits. The increased metering functionality will allow consumers to better manage their electricity usage. We outline several issues we consider relevant should the Queensland Government decide to rollout advanced metering below.

⁴ AER Consumer Reference Group Minutes – Meeting No 4, 23 May 2013, p. 4.

⁵ AER Consumer Reference Group Minutes – Meeting No 4, 23 May 2013, p. 4.

⁶ Consumer Utilities Advocacy Centre, *Meaningful and genuine engagement, perspectives from consumer advocates (a CUAC research report)*, November 2013.

Implementation of the rollout

Consistent with our submission to the AEMC's Power of Choice Review, we support a contestable approach to rollout advanced metering. That is, making the provision of advanced metering services competitive and open to any approved metering service provider. We supported this approach over a monopoly model (single entity rollout). However, we acknowledged a contestable approach could lead to some losses in economies of scale. A more concentrated rollout would lead to potentially reduced costs (through mass purchasing) and greater speed of the rollout. However, there are also other approaches to address losses in economies of scale. For example, a tender process for the exclusive provision of advanced metering services over a designated area.⁷

Consumer education and engagement

We consider consumer education and engagement about advanced metering is necessary to facilitate any advanced metering rollout. This will assist consumers to make informed decisions about whether to adopt advanced metering and how to maximise the benefits of associated technologies. We note the consumer engagement strategies for the advanced metering rollout by HydroOne (Canada) and Southern California Edison (United States). HydroOne set up information booths at community events providing information on billing and sending letters to customers. HydroOne also set up call centres with specially trained staff to handle inquiries. For Southern California Edison's rollout, they opened the operations centre early and operated its communication network immediately. There was extensive follow-up communication, including a personal phone call to each customer where a meter was installed.⁸

Classification of metering services

We are responsible for classifying metering services for Energex and Ergon Energy (the distributor). That is, we determine which electricity distribution services we will regulate and then determine how those services will be priced. Currently, Energex and Ergon Energy share the costs of type 5 and 6 meters across the customer base. This means that a person will continue to pay this charge, even if they install an advanced meter.

One possible approach to overcome this issue is for us to change how we classify type 5 and 6 meters in Queensland. For example, we could unbundle metering services and classify them as alternative control services. This will prevent customers, who elect to have an advanced meter, also paying for a type 5 or 6 meter they no longer use. We recently proposed this approach in New South Wales.⁹ We will soon be commencing the electricity determination process for Energex and Ergon Energy and will consult with stakeholders, including consumers on a range of issues including reclassifying domestic metering services.

⁷ AER, *AER Submission to the AEMC draft report – Power of Choice review of demand-side participation in the NEM*, 12 October 2012, p. 5.

⁸ Deloitte, *Victorian Department of Treasury and Finance, Advanced metering infrastructure cost benefit analysis*, 2 August 2011, pp. 31-2.

⁹ AER, *Stage 1 Framework and approach paper for Ausgrid, Endeavour Energy and Essential Energy*, March 2013, p. 27.

Support customer-focused reliability standards

What issues should the Queensland Government take into account in moving away from prescriptive reliability standards?

We broadly support the Queensland Government moving to a less prescriptive approach, focused on customer outcomes and explicitly consider the trade-off between the level of reliability and costs. We support:

- greater emphasis on developing output based reliability standards
- greater consideration of the value that customers place on reliability and costs
- enhanced consumer engagement requirements¹⁰

We value customer preferences about reliability. We also support the establishment of a formal mechanism by incorporating outcomes of value of customer reliability studies. However, we consider such a mechanism needs to be robust and support a cycle of continuous improvement.

Attracting investment in generation

In July 2011, the Queensland government restructured ownership and operation of its generating assets. In this restructure, Gladstone Power Station was transferred from Stanwell to CS Energy. CS Energy already owned Callide B and half of Callide C. The Tarong Power Stations (near Brisbane) were transferred to Stanwell Corporation.

Increased concentration of generators may be contributing to higher wholesale prices in Queensland, especially when constraints bind on the New South Wales–Queensland interconnector.

Competition among electricity generators creates an important discipline on wholesale prices. Generators' ability to exercise market power is affected by the willingness and ability of other generators to increase their output in response to an increase in the price, which depends on the presence of transmission constraints. Repeated interaction between a small number of large market participants can also lead to 'coordinated' or 'parallel' behaviour.

In December 2012, we reported on the current NEM arrangements for managing transmission network congestion and how generators respond to that congestion through disorderly bidding.¹¹ We analysed how generators' response to congestion has led to inefficiencies,

¹⁰ AER, *Submission on AEMC consultation paper – Review of national frameworks for transmission and distribution reliability*, 13 August 2013, pp. 2-3.

¹¹ Disorderly bidding is bidding by generators in a non-cost reflective manner—typically in response to transmission congestion. For example, if the market price is high, but congestion means certain generators have to generate less, those generators have an incentive to find ways to keep generating. They might bid in prices at well below their costs or restrict the speed at which the output of their plant can be lowered. Disorderly bidding leads to inefficient dispatch and unnecessary price volatility. To minimise this problem, we have proposed a Rule change that would require generators to submit ramp rates that reflect the maximum the generator is safely capable of achieving.

price volatility and has reduced the ability for market participants to manage risk between regions. The analysis focuses on recent congestion events in Queensland among others.

We found a high number of occasions in Queensland when generators have contributed to causing transmission constraints to bind, which created significant price volatility. For example, between January and March this year, Queensland spot prices exceeded \$100/MWh 72 times (with two prices above \$2000/MWh), and sixteen negative spot prices (including three below -\$100/MWh) followed these high prices.

Higher price volatility, in particular when it is not forecast, can lead to market uncertainty and cause inefficient dispatch of generation. It also makes it more difficult and expensive for retailers and generators to hedge against volatility, for customers to participate in demand reduction and ultimately raises costs for consumers.

We would be pleased to provide further assistance on this important body of work. If you would like to discuss any aspect of this submission, please contact Robyn Lowien, Assistant Director, Network Regulation, on (07) 3835 4659.

Yours sincerely



Andrew Reeves
Chairman
Australian Energy Regulator