ELECTRICITY MARKET REFORM - PUTTING CONSUMERS FIRST

The Standing Council on Energy and Resources (SCER) has agreed to four key areas to progress energy market reform to support investment and market outcomes in the long term interests of consumers.

The Queensland Minister found it necessary to reserve his position on specific matters which are the subject of current major energy industry reviews in the State, in particular support for pricing deregulation, time of use pricing, potential arrangements for smart meters and the commencement of the National Energy Customer Framework (NECF). Positions on these matters are expected to be finalised by the Queensland Government by mid-2013.

Strengthening Regulation

Strengthening governance – SCER agreed to strengthen the performance and accountability frameworks of both the Australian Energy Regulator (AER) and the Australian Energy Market Commission (AEMC) by December 2013, and welcomed the Commonwealth’s commitment to increase the funding to the AER in order to deliver a stronger regulator. Some Ministers expressed concern that the existing structure of the AER within the Australian Competition and Consumer Commission (ACCC) could limit the regulator’s ability to effectively perform its operations and considered that structural separation could be considered by the Council of Australian Governments (COAG).

Strengthening regulatory outcomes – SCER welcomed the AEMC’s final decision on changes to the Rules on economic regulation of energy networks, which seek to ensure sufficient investment in network assets to maintain reliability while minimising costs to consumers. SCER supports the introduction of transitional arrangements that will ensure consumers begin to receive early benefits from these rule changes.

SCER further agreed to investigate whether legislative amendments are needed to ensure the AER has sufficient and clear powers to collect and publish data necessary to benchmark the performance of energy networks. SCER has also agreed to ensure that the AER has adequate enforcement powers, including civil penalty arrangements, through a review of enforcement regimes.

Appropriate appeals mechanisms – Ministers welcomed the Final Report from the Expert Panel Review of the Limited Merits Review Regime, including its assessment of the shortcomings of the regime to date in delivering on the original policy intent and the need for improvement. SCER will progress improvements to the regime early in the new year and agreed to undertake consultation through a Regulatory Impact Statement.

Empowering consumers

Enhancing consumer representation – SCER endorsed the strengthening of consumer input into network pricing decisions and noted the Commonwealth’s proposal to establish a Consumer Challenge Panel within the AER to ensure that consumers are better represented within regulatory decision and appeal processes. SCER further agreed to develop, in close
consultation with consumer bodies, a proposal on the form, scope and funding of an institution that would be a strong national advocate for consumer interests that is well equipped to contribute constructively to energy policy and market development issues.

*Consumer energy data* – SCER agreed to ensure consumers have better access to their electricity consumption data and improve arrangements for third party access to consumer data where a consumer gives explicit consent and where appropriate privacy provisions are in place. This will give consumers information about their energy use to assist them in reducing their energy costs and comparing retail tariffs.

*Smart meters* – SCER agreed to develop arrangements necessary to encourage the market-driven (business-led) competitive roll-out of smart meters and other advanced metering. This will mean consumers could sign onto a retail package that offers them a smart meter and the potential to opt-in to a time varying tariff. SCER noted the progress made by Victoria in rolling out smart meters and acknowledged the need to accommodate Victoria’s regulatory arrangements.

*Time varying pricing* – SCER agreed that a transition to more cost-reflective pricing structures is likely to be an important enabler of demand side participation. SCER agreed to provide for the phase in of cost-reflective retail pricing structures through the use of time varying network tariffs that small consumers can choose to opt into (based on the recommendations of the AEMC in its Power of Choice review). SCER recognises that it is crucial that this work be accompanied by appropriate consumer engagement and education, and protections for vulnerable consumers.

*Demand side participation* – As part of the package of reforms recommended by the AEMC Power of Choice review, SCER agreed to progress an additional option for direct demand side participation in the National Electricity Market (NEM). This will provide more opportunities for consumers to be rewarded for their demand restraint. SCER will report to COAG on the full set of Power of Choice recommendations in June 2013.

*Enhanced consumer protections* – SCER agreed to all NEM jurisdictions commencing the NECF as soon as practicable and no later than 1 January 2014, subject to the resolution of some jurisdictional specific issues. SCER also agreed to complete its specific work on consumer protection for smart metering and time varying pricing as a priority.

**Enhancing competition and innovation**

*Greater retail competition and innovation* – SCER supports the need for retail energy markets characterised by strong competition that offer innovative products and services to the benefit of consumers. SCER therefore recommends to COAG that it reaffirm the commitment to deregulate retail prices where competition is effective.

Recognising that any transition from a regulated to deregulated market is complex and takes time, jurisdictions agreed to provide advice to SCER by the end of 2013 on the current state of competition and policy settings to fulfil this commitment.
To inform the transition to more competitive retail markets, SCER further agreed to develop and implement improvements to the current mechanism of competition reviews by the AEMC, to provide a more market-wide and ongoing review of the state of competition. SCER recommended that COAG agree that the Australian Energy Market Agreement (AEMA) be amended as necessary to institute these revisions to the AEMC’s current approach to its competition reviews. SCER will also task the AEMC to develop a best-practice methodology for retail price regulation that jurisdictions can choose to adopt, where regulation remains.

‘Fair and reasonable’ return for micro generation – SCER recommended that the National Principles for Feed-in Tariff Schemes be amended by COAG to include all forms of micro generation technologies and to close premium schemes to new participants by 2014. This seeks to provide a level playing field to enhance competition in electricity generation.

Ensuring balanced network investment

Reliability standards – SCER agreed to task the AEMC with developing a nationally consistent framework for expressing, delivering and reporting on distribution and transmission reliability outcomes. In doing so, the AEMC will ensure that the approach taken to meet reliability requirements reflects economically efficient outcomes in the long term interests of consumers. SCER further agreed to recommend to COAG that it amend the AEMA to make explicit the opportunity for jurisdictions to transfer the application of the reliability framework to the AER. Jurisdictions will report to SCER by the end of 2013 on their decisions on the transfer of this responsibility.

Changes in demand – SCER agreed to task the AEMC with investigating the implications of differences between actual and forecast demand within the operation of the network regulatory frameworks. SCER also agreed to task AEMO to develop demand forecasts which may be used by the AER to inform its future regulatory determination processes. These measures are designed to ensure that any cost or benefits associated with reducing demand can be shared appropriately between network businesses and consumers.

Transmission framework – SCER agreed to finalise its policy response to the AEMC’s Transmission Frameworks Review by end 2013 with respect to opportunities to improve connections, access and planning processes. The Review seeks to ensure appropriate incentives are in place to invest in transmission and electricity generation.