

The Allen Consulting Group

Research Agenda 2010-11

January 2011

Report to the Consumer Advocacy Panel

The Allen Consulting Group

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Background

The Consumer Advocacy Panel ('the Panel') funds research into consumer energy issues that meets its funding criteria (see Appendix A) to an amount of no more than 25 per cent of the Panel's total budget. The Panel has two research programs:

- *research initiated by other organisations* — the Panel provides funding to consumer organisations and academic institutions to undertake research on electricity and gas issues; and
- *research initiated by the Panel* — in its 2010-11 budget, the Panel committed \$150,975 for Panel-initiated research in consumer electricity and consumer gas issues.

The Panel engaged the Allen Consulting Group (ACG) to assist in developing its research agenda for 2010-11.

Methodology

The research agenda has been developed taking into account:

- the report of the Panel's stakeholder Forum *Mapping consumer energy issues 2009–2014*, prepared by Etrog Consulting Pty Ltd; and
- targeted stakeholder consultation undertaken by ACG with representatives from:
 - the Australian Energy Market Commission (AEMC);
 - the Australian Energy Regulator (AER); and
 - the Department of Resources, Energy and Tourism (DRET).

Proposed priority areas

On this basis, four research areas have been identified, each of which is detailed below:

- Impact of price increases on consumers;
- National Energy Customer Framework (NECF) implementation;
- Demand side participation (DSP); and
- Consumer engagement.

Priority 1: Impact of price increases on consumers

What's the problem to be addressed?

Electricity and gas prices in Australia have increased significantly over the past ten years (DRET 2010b). To take the example of Victoria, household energy costs have typically increased by more than \$300 over the last two years (St Vincent de Paul 2010). Energy prices have historically been low in Australia by international standards, but this is not necessarily well understood.

The trend of increasing prices is expected to continue. A key driver has been increases in retail network costs as a result of the introduction of new infrastructure to boost network reliability. Another driver has been a range of policies designed to respond to climate change. Despite the lack of a national price on carbon, each of these policies does affect energy price and the cumulative effect is to place upward pressure on prices. Household energy consumption has also increased.

Despite the potential for these significant increases electricity and gas prices, there has been limited analysis of the impact of price increases on consumers and consumer attitudes towards higher energy bills. Issues include:

- the impact of price increases on disadvantage consumers;
- consumer understanding of what causes prices to increase;
- consumer willingness to pay for increased network reliability;
- consumer willingness to pay for climate change mitigation; and
- consumer awareness of energy consumption and efficiency measures.

Targeted research into these and other consumer issues has the potential to provide significant benefits. By developing our understanding of these issues, research can contribute to more effective demand side participation (DSP) and more informed public debate about energy policy.

Research objectives

- To understand consumer attitudes towards the drivers of price increases such as network costs, climate change responses and consumption.
- To identify the potential impacts of price increases on consumers, particularly disadvantaged consumers.

Outcomes

- Provide research that contributes to the effective representation of consumer interests related to price increases.
- Provide an evidence base for advocacy organisations and in turn, facilitate informed decision making.

Priority 2: National Energy Consumer Framework implementation

What's the problem to be addressed?

NECF involves the transfer of current state and territory responsibilities to a national set of regulatory arrangements administered by the AEMC. The implementation of the National Electricity Law and National Gas Law represent the major legislative changes.

The main objectives of NECF are to (DRET 2010):

- streamline the regulation of energy distribution and retail regulation functions in a national framework; and
- develop an efficient national retail energy market including appropriate consumer protection.

Legislation to give effect to NECF was introduced in South Australia in October 2010 (MCE 2010a) with other applicable jurisdictions to progressively introduce similar arrangements between July 2010 and July 2013 (MCE 2009).

There is considerable scope for research into the implications of NECF implementation. General areas of NECF implementation where targeted research could be of benefit to consumers include consideration of hardship issues, establishment of monitoring and enforcement standards and reporting processes.

Looking forward, research into NECF implementation could examine the adequacy of the NECF to protect consumers given initiatives including the introduction of smart meters and the deregulation of retail prices in more jurisdictions (DRET 2010a).

Research into this area is both timely and relevant within the context of the national energy policy landscape and has clear potential to contribute to current discussions on NECF implementation towards 2013.

Research objectives

- To identify potential impacts of NECF implementation on consumers, with particular emphasis on disadvantaged consumers.
- To assess the likely impacts of NECF implementation on consumers.
- To examine the adequacy of national hardship measures to protect vulnerable consumers given ongoing market developments.

Outcomes

- Provide an evidence base to ensure that consumer interests — particularly those of disadvantaged consumers — are represented in current debates around NECF.
- Provide in depth contributions to current NECF implementation consultation processes.
- Provide a basis for ongoing NECF advocacy and in turn, facilitate informed policy and regulatory decision-making.

Priority 3: Demand side participation

What's the problem to be addressed?

DSP refers to households and businesses that routinely consume electricity being involved in the energy market. Participation can be passive — for example, consumer energy consumption choices in response to price fluctuations — or active — for example, entering into contractual consumption arrangements with other energy market participants (AEMC 2009).

An example of a current active DSP measure is the recently completed five-year research project by ESTA Utilities investigating trials of direct load control in South Australia (ETSA 2010). The trials involved remotely switching off air conditioners in homes to control peak demand.

In November 2009 AEMC published the Final Report of Stage 2 of the Review of Demand-Side Participation in the national electricity market (NEM). The report concluded that the NEM framework does not present significant barriers to the use of DSP. However, the report noted that the implementation of smart meters and smart grid technology could impact significantly on the market environment and in turn, the efficiency of DSP measures (see AEMC 2009).

In June 2010, the Ministerial Council on Energy (MCE) provided its response to the Stage 2 Final Report. Among a range of comments, MCE indicated that the final stage of the review, Stage 3, should consider issues relating to the operation and effectiveness of price signals and energy efficiency obligation schemes (see MCE 2010b).

There are a number of relevant consumer issues relating to these developments in DSP policy. For example, stakeholders have indicated that smart metering has the potential to load network costs onto those consumers who are unable to consume electricity during off-peak supply periods. Disadvantaged consumers represent a particularly vulnerable group with these inflexible consumption decisions.

In addition, active DSP measures such as the distributed generation of energy effectively represent a cross-subsidy from non-participants to participants. Those who can afford to participate in micro generation benefit from these measures, while the cost is borne by other consumers. However, this should be balanced against the environmental benefits of such schemes.

More generally, DSP measures face considerable barriers in achieving effectiveness. These include a lack of incentives for consumers to reduce demand or install generators, the limited network benefits of reducing demand and the complexity in the decision making process for consumers.

Research into the consumer issues relating to DSP has clear potential to contribute towards Stage 3 of AEMC's review process and discussions of DSP more generally.

Research objectives

- To consider how best to encourage DSP by removing barriers to participation and introducing appropriate incentives.
- Evaluate existing DSP programs to determine their effectiveness and provide lessons for other DSP initiatives.
- To understand the costs and benefits of different DSP approaches.

Outcomes

- Provide research that may form an input to other DSP processes, such as the AEMC review.
- Understand how DSP affects different types of consumers, taking into account environmental and social objectives.

Priority 4: Consumer engagement

What's the problem to be addressed?

Energy networks in Australia represent a relatively mature industry. However, significant information asymmetries still exist between suppliers and consumers. For example the tariff components that make up energy price are not well understood by most consumers, as discussed previously.

In addition, many consumers are relatively uninformed about how to reduce their energy bills. Stakeholders indicated that network costs make up about half the value of many household bills, yet there is relatively little consumer participation in discussion on network investment and reliability.

If energy consumers are better informed and engaged, this will encourage competitive forces in those markets with retail contestability. It will help to overcome market failures caused by information asymmetry. This could be achieved through a comprehensive approach to consumer education and information provision.

Many of the issues raised in this research agenda can be related back to consumer awareness and engagement. However, there has been little systematic analysis on potential mechanisms to increase public awareness of energy issues.

Research objectives

- To determine what strategies would be most effective in engaging energy consumers.
- To determine how different types of consumers will respond to different information strategies.

Outcomes

- Address information asymmetries.
- Promote transparency and competition in retail markets.
- Encourage consumer advocacy on behalf of a broad range of consumers.

Appendix A

Consumer Advocacy Panel funding criteria

To be eligible for funding a project must address national electricity and/or gas market issues as follows:

Electricity Projects

A project intended to benefit consumers of electricity should:

- relate to the development, design or operation of, or policies associated with, the national electricity market or the retailing of electricity, or relate to other issues covered by the National Electricity Law for the National Electricity Rules;
- directly relate to an aspect of the responsibilities of the AER, the AEMC or NEMMCO under the National Electricity Law for the National Electricity Rules; or
- have some other relevance to the national electricity market or the retailing of electricity, when viewed as a whole.

Gas Projects

A project intended to benefit consumers of gas should:

- relate to the development or operation of gas pipelines, or policies associated with obtaining access to gas pipelines, or relate to other issues covered by the National Gas Law or the National Gas Rules;
- directly relate to an aspect of the responsibilities of the AER or the AEMC under the National Gas Law or the National Gas Rules, or the responsibilities of the Economic Regulation Authority under that law or those rules in Western Australia; or
- have some other relevance to the national gas market or the retailing of gas, when viewed as a whole.

Appendix B

References

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