

**Submission to the MCE SCO re Discussion Paper: “Improving User
Participation in the Australian Energy Market”
from the Tasmanian Council of Social Service and incorporating views from the
Tasmanian Conservation Trust
14 April 2004**

The Tasmanian Council of Social Service is a peak body representing its members – organisations and individuals involved in the community services sector throughout Tasmania. TasCOSS plays an important policy role within the sector by representing, publicly and to government, the interests of both its members and their clients, that is low income, vulnerable and disadvantaged Tasmanians.

TasCOSS has been involved in electricity issues for a number of years and is represented on the Tasmanian Energy Regulator’s Customer Consultative Committee, as well as on the ACCC’s national Consumer Consultative Committee (on which we represent both the council of social service sector and Tasmania). We are also involved in domestic end user capacity building through an electricity education project funded by the NECA National Consumers Electricity Advocacy Panel.

Our concerns in the electricity debate focus on the interests of domestic electricity consumers, particularly those living on low incomes and those otherwise disadvantaged and vulnerable. Our response to this discussion paper is therefore necessarily limited by our focus which excludes the interests of business and industrial consumers (except where their consumption and pricing arrangements affect domestic consumers). Our response is also limited by the complexity of many of the issues involved, and our lack of knowledge and complete understanding of the technical and economic issues involved in some of the options put forward in the discussion paper.

This submission will address, unequally, each factor proposed for facilitating greater end user participation in the energy market, and will do so by addressing many (but not all) of the questions posed as ‘Issues for Consultation’ at the end of the discussion paper. This submission ends with some general comments about the issue of improving user participation.

5.1 Demand Side Response Market Mechanisms

This is an issue on which we have difficulty commenting in detail given our lack of technical expertise in the possibilities outlined here. We can say, however, that any move to introduce demand side response mechanisms, be they ‘pay-as-you-bid’ or aggregation mechanisms, must be cost neutral to domestic consumers unless consumers choose to be involved. In other words, the costs involved in mechanisms designed to allow some groups or ‘pools’ of consumers to negotiate usage and prices must not be shared by all consumers.

Any such options must be accompanied by education programs and capacity building to enable domestic end users to fully understand the costs and benefits of all options, and to enable them to make informed decisions about the type of ‘pool’ that would most benefit their patterns of usage. We note that this option is dependent on consumers having access to accurate information about their electricity usage (ie ‘smart’ or interval meters).

We note that there may be some potential in establishing ‘pools’ of small domestic electricity consumers for energy conservation purposes. That is, aggregation facilities may allow groups of consumers who are willing and able to be flexible with their energy consumption (and to adopt other demand management initiatives) to negotiate cheaper tariffs or to be supplied with electricity from ‘green’ (or renewable) sources only.

5.2 Interval Meters

- o **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?**

We will not comment on this except to say that any such review must be fully funded by the large end users concerned and/or the electricity retail companies supplying them. Costs must not be passed on to other electricity users who are unlikely to benefit from a review given the differences in issues and conditions for large and small users.

- o **What customer classes/market segments could benefit from a rollout of interval metering technology? Please state the basis of your evaluation.**

We believe that domestic end users could benefit from the installation of interval meters at the household level through the ability of meters to provide information to consumers on their exact electricity use and costs. The degree of benefit would depend on the ‘smartness’ of the meters, that is, meters that can display and record real time electricity consumption, including that of individual appliances, and provide consumers with an indication of costs at particular times of day, would be of great benefit to consumers. Information provided by such meters would better inform consumers who would then be better equipped to make decisions about their use of particular appliances, general electricity usage and times of usage.

It should be noted, however, that much domestic energy usage is not discretionary and consumers are not always able to adjust their consumption patterns to take advantage of cheaper times of day or other offers involving change of usage patterns that might be made by retailers. In particular, families with children, working people, retired people, people living on low and fixed incomes and those with disabilities and chronic illnesses, are less likely than some others to be able to alter their patterns of usage or to afford to replace high consumption and inefficient appliances.

It seems likely that the type of domestic consumer that could gain maximum benefit from interval meters are those who are childless, educated, healthy, flexible enough to be able to alter their energy usage, and have sufficient income to be able to invest in energy-efficient homes and appliances. In regard to energy use, it could be said that it takes money to save money.

We note also that it is highly likely that interval meters will be of greater value to electricity retailers than to domestic consumers. Interval meters will provide retailers with sufficient information on customer usage to enable offers to be made to individual customers based on

their usage patterns. This will benefit retailers who will be able to identify customers by their individual usage patterns and to offer differential supply contracts that will maximise retailer margins for various customer types. There are dangers that retailers may also be able to organise, within their own customer pool, an informal (and non-transparent) system of cross-subsidisation.

Given the likely relative benefits of interval metering favouring retailers, the majority of the costs involved in rolling out interval meters should be met by retailers with differentiated costs applied to those consumers who will most benefit (eg those on cheaper market contracts). It is likely that many domestic consumers will be constrained by their life circumstances and living conditions from changing their consumption patterns to take advantage of savings, and may therefore enjoy little real benefit from interval meters. Such consumers should not be expected to share equally the costs of interval meters with those who will benefit most. Although differentiated costs may be difficult to apply in practice, meter costs might be a component of some cheaper energy market contracts.

We would also like to note that, unless the use of interval meters in domestic environments is regulated and/or overseen in some way, there may be serious issues concerning privacy. For instance, retailers with access to individual consumers' electricity usage patterns may, without regulatory constraints, sell this information to other businesses who may then target consumers with other products.

- o **Do stakeholders support a remote load control program specifically targeting household air conditioning use, and other technologies that could assist consumers to voluntarily manage their domestic energy use? What cost effective technologies could facilitate an effective program?**

We have serious concerns about remote load control and the role played by interval meters in facilitating this. We do not support remote load control except where it is performed on an absolutely voluntary basis (and this itself may be problematic, see below).

The notion of a retailer arbitrarily cutting off or reducing power to households without prior, informed consent is unacceptable. It may assist retailers to manage peak demand but it is, in our view, a paternalistic and undesirable solution.

Although much of the literature on electricity issues identifies remote load control as an option for demand side management, we see it clearly and unambiguously as supply side management. It has no effect on demand, it merely withholds electricity supply at the discretion of the supplier.

It has been suggested that, in order to 'voluntarily manage their domestic supply', consumers might choose to enter into contracts with retailers that allow for 'interruptability' of supply under agreed conditions, times, etc. We question such contracts on the grounds that low income and vulnerable consumers may be tempted (or, by circumstances, 'forced') to choose a contract that offers a significantly lower per kWh charge in exchange for an 'interruptible' supply of power. Indeed, in an environment that allows for and promotes remote load

control by contract, guaranteed continuous service may become a 'premium product' with a premium price-tag attached.

There may be some potential within aggregated user 'pools', after informed debate and discussion, for some 'pools' to choose to 'trade-off' their right to uninterrupted supply for cheaper (or 'greener') power options.

It should be noted that in Tasmania, peak electricity demand occurs in the winter months as the result of space and water heating. Such electricity use is not discretionary and interruptions to supply, whether voluntary or otherwise, can have very serious consequences.

Although interval meters may provide the technology for domestic consumers to monitor their energy usage and costs, it must remain up to individual consumers to manage their demand in the way they see fit. This should not be carried out remotely by a 'Big Brother' retailer or regulator, but by consumers themselves with the full knowledge and understanding of what they are doing, how (ie by choosing to turn off certain appliances) and why.

We would like to see a broader community debate on the issue of remote load control since much of the literature and discussion on 'demand side management' implies that it is an acceptable, indeed desirable, option and its implementation is a forgone conclusion. We do not agree.

5.3 Retail Pricing

o What overarching pricing principles would be appropriate to guide regulated price setting?

Pricing principles must ensure affordability to low income and otherwise disadvantaged households. This may require a 'safety net' type approach, or the imposition and funding of Community Service Obligations, and will necessarily involve governments. Principles must be based on the understanding that electricity is an essential service, not a discretionary service that can be left entirely to a free market to provide.

In Tasmania, 40% of adults are currently eligible for some state government funded electricity concessions, and in this state, the necessity to ensure ongoing affordability may mean a departure from cost reflective retail tariffs.

We are concerned also that households (which are being identified as responsible for the worst of the peak demand) are going to be increasingly responsible for the incremental costs of servicing peak demand. Insofar as households contribute unequally to peaks, have differential capacity to avoid peak usage, and have variable mixes of luxury and necessity electricity usage contributing to peaks, serious inequalities are likely to grow if all households are treated as a single 'pool'. It is necessary therefore, in considering principles for price setting, for regulators to seriously address this issue.

We believe that there is an urgent need for research to be carried out on the whole issue of pricing and cross-subsidisation in the electricity market – to identify differences between

different household usage, and between household and business/industry usage in order to identify the extent of cross-subsidisation between identifiable groups. The outcomes of such research would contribute to a clearer understanding of pricing, and to the making of informed decisions by consumers and regulators.

o **What methodologies do stakeholders consider appropriate for price caps?**

Again we would recommend affordability measures be included in the any methodologies used for setting price caps.

o **What intermediate steps could jurisdictions take to ensure consumer price certainty and affordability without instituting price caps?**

None. We see price caps as essential to consumer price certainty and affordability. In order to make what are often long-term decisions about household appliances and equipment, domestic consumers need to have the certainty provided by price caps. Further, we believe that price caps are rightly the primary mechanism used by government, through regulators, to limit inequities in electricity markets.

o **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 could be made?**

We have some concerns about a national price setting approach. Each jurisdiction has quite different demographics, energy usage needs, energy supply issues, industry needs, and domestic-business-industry mix. Tasmanians, for instance, currently do not have widespread access to natural gas and are reliant on electricity for almost all of their energy needs. This factor is fundamental to electricity issues in Tasmania and affects the price setting process. Having nationally consistent *principles* for price setting is appropriate but not necessarily nationally applicable pricing.

o **What do stakeholders consider as an appropriate timeframe for periodic price cap review?**

We see at least three years as a reasonable period for price capping review. Three years provides sufficient time for planning, to foresee changes and to maintain certainty. The triennium appears to be a standard planning period in many industries.

o **What criteria are needed to developing a framework for a price cap review? For example, how do we define what constitutes effective competition?**

One indicator of effective competition in an electricity market involves the right for every consumer, regardless of their means, to have the right to be made an offer of supply on market terms. If this is not the case, it will leave a large number of consumers reliant on 'safety net' or CSO conditions of supply, and retail contestability will be the province of the more well-off only.

- o **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?**

We support the establishment of a price comparability website but hasten to add that it will not meet all needs. There are many electricity consumers who are on the other side of a growing 'technological divide', as well as many consumers who simply do not have easy access to the internet. It is also possible that individuals may not have the capacity to understand the information content of such a website, particularly with the kind of complex information likely to be posted.

There would need to be other, more accessible services to meet the needs of such consumers. Options might include a 1 800 telephone enquiry service where comparisons can be made by call centre staff in conversation with consumers, and/or an e-mail or postal reference service that could assist consumers with comparisons of actual offers made to them.

Such services would best be provided by an independent third party and funded by both government, and by retailers through a levy based on turnover.

A comparability website could include actual comparisons of offers based on both averages and case studies (to demonstrate different conditions for different household types, climatic conditions, times of year, etc). It could also include a scenario builder utilising flow chart logic and a calculator.

Some further comments

In addition to the options discussed above, we believe that there is potential to increase user participation in the energy market through the promotion of energy efficiency measures. Many consumers see the conservation of energy as an imperative – some for ideological reasons, some for environmental reasons, and others for personal and broader economic reasons. Measures designed to reward consumers for using less electricity, or for using only 'green' energy (from renewable sources) may provide motivation for more active participation in the market.

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