Australian Government

Australian Government response to the
Senate Select Committee on Electricity Prices report:

Reducing energy bills and improving efficiency

June 2013

Government Response to
Senate Select Committee on Electricity Prices

INTRODUCTION

The Senate Select Committee on Electricity Prices presented its report '*Reducing energy bills and improving efficiency*' on 1 November 2012 which contained 15 recommendations. In addition to the Committee's recommendations, the Coalition, the Greens and Senator Xenophon have made separate recommendations in the report. The Government has prepared a response to each of the recommendations in the report.

In April 2012, the Council of Australian Governments (COAG) identified energy market reform as one of its six priority areas for major reform, identifying concerns over rising electricity costs and the increasing pressures placed on households and business. On 7 December 2012, COAG endorsed a comprehensive energy market reform package aimed at ensuring energy markets and regulations are operating in the long term interests of consumers. The package builds on the existing cooperative reform agenda and was developed through COAG's Standing Council on Energy and Resources (SCER), which has policy responsibility for energy market reform. This reform agenda addresses many of the issues raised in the Committee's recommendations and is referenced in the responses below.

The Australian Government's official response to each of the Committee's recommendations is provided below.

RESPONSES TO RECOMMENDATIONS

Recommendation 1
The committee recommends that the AER provide an annual report including detailed quantitative analysis of the components of and contributors to electricity prices.

Australian Government Response
The Australian Government notes this recommendation and considers that the existing reporting processes are adequate.

The Australian Energy Market Commission (AEMC) already fulfils this role through its annual reporting on household electricity prices, as directed by the Standing Council on Energy and Resources (SCER). This reporting provides detailed and comprehensive analysis of movements in electricity prices and associated cost components across jurisdictions and nationally.

The Australian Energy Regulator (AER) also reports annually through its 'State of the Energy Market' publications. These reports provide some information on retail electricity prices across jurisdictions within the National Electricity Market (NEM), although not to the same level of analysis as the AEMC's reporting.

Recommendation 2
The committee recommends that ongoing arrangements be put in place to more effectively scrutinise prices in the overall electricity system, and ensure that price setting for individual components and factors is done in the context of keeping overall electricity prices at a more acceptable level.

Australian Government Response
The Australian Government notes this recommendation and considers that it will be addressed by the implementation of COAG's energy market reform.

The electricity supply system has a number of interrelated components that can impact on the overall prices paid by electricity consumers. The Australian Government, through SCER, is committed to ensuring that consumers are not paying more than necessary through the introduction of competition in non-monopoly sectors (retail and generation) and through incentives to minimise costs where competition is not possible (transmission and distribution).

Electricity prices, and the underlying cost components, are determined through a combination of regulatory and market processes. The ongoing energy market reform agenda, including SCER's reform package endorsed by COAG on 7 December 2012, is based around ensuring that these energy market and regulatory frameworks are operating efficiently to avoid unnecessary cost pressures for consumers. The extensive package of reforms endorsed by COAG is available at: www.coag.gov.au/node/481.

The Australian Government notes that with respect to the particular issue of retail "price setting" or regulation, COAG has endorsed SCER tasking the AEMC to develop a consistent methodology for determining retail prices, with particular regard to time varying network tariffs and wholesale electricity costs whilst maintaining reliable supply. This work is due to be completed by September 2013.

Recommendation 3
The committee recommends that:

- **rates of return for network service providers are estimated using a robust process based on guidelines developed and reviewed every three years in consultation with stakeholders;**
- **the proposed amendments in the Australian Energy Market Commission (AEMC) *Economic Regulation of Network Service providers* rule change regarding methods for forecasting return on capital, return on debt, opex and capex are implemented as part of that rule change process;**
- **the AER should also be required to consider forecast total expenditure (totex) when making network determinations; and**
- **SCER direct the AEMC to examine arrangements for AEMO to be the single planning agency for the National Electricity Market (NEM) with responsibility for forecasting, network planning, national reliability standards and operating**

Australian Government Response
The Australian Government notes these recommendations and considers that they are being addressed by a number of reforms underway.

On 29 November 2012, the AEMC, as independent Rule maker for energy markets, published the final Rules relating to the economic regulation of network service providers. The new Rules provide greater scope to the AER to adapt its approaches to the nature of the business it is regulating, clarify the powers of the regulator to benchmark and publish information on the relative efficiency of electricity network businesses, and change how the rate of return on capital is set. SCER is currently addressing barriers in the national energy laws to the AER undertaking its new functions resulting from the rule changes, specifically around the requirement to publish an annual benchmarking report.

In determining the rate of return under the new Rules, a common framework will apply to transmission, distribution and gas determinations that will require the regulator to take into account market circumstances, estimation methods, financial models and other relevant information to tailor specific decisions to a particular network business. A key aspect of this reform is the development by the AER of a rate of return guideline to promote transparency around decisions. The regulator is required to undertake an open and consultative process at least every three years to develop and update this guideline.

With regards to total expenditure, a consequence of these changes to the Rules is that the AER now has a range of new tools to incentivise Network Service Providers to invest more efficiently, with the overriding objective of ensuring that only capital expenditure which has been assessed as efficient by the regulator will form part of the regulated asset base, which in part drives network tariffs. These include the use of capital expenditure sharing schemes and efficiency reviews of past capital expenditure. The AER will be able to apply the tools as it considers appropriate to each network business.

The Australian Government supports the introduction of the new Rules to the fullest extent possible in advance of the next round of the network regulatory determinations beginning in mid-2014, so that potential benefits can flow to consumers within that determination period. The Government also notes the December 2012 SCER commitment to remove any barriers in the national energy laws for these new rules to have full effect. SCER aims to identify and address any barriers to the AER benchmarking network businesses by the end of 2013.

SCER has also agreed to accelerate improvements in the appeals process for revenue and price decisions made by the AER for network businesses, to ensure this process is focused on delivering overall outcomes that are beneficial for consumers. A consultation process on options to improve the regime commenced on 14 December 2012 through the release of a consultation Regulation Impact Statement, with SCER intending to decide on the structure of the new regime by mid-2013. A revised regime is expected to be in place by 2014.

The Australian Government notes that the Australian Energy Market Operator (AEMO) undertakes a National Transmission Planner role for the NEM. Issues around planning have been considered by the AEMC in its Transmission Frameworks Review. In relation to reliability standards, SCER has 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 standards by network businesses reflects economically efficient outcomes that reflect consumers' willingness to pay. Accordingly, COAG agreed in-principle to transfer the application of this framework, following due consideration of the AEMC's advice, to the AER. Jurisdictions will report to SCER by the end of 2013 on their decisions on the transfer of this responsibility.

Recommendation 4

The committee recommends that:

- **the AEMC implement the rule change proposed in the *Power of Choice* draft report to amend the pricing principles of Chapter 6 of the NER so that greater guidance is provided on how network businesses should set their tariffs to reflect costs; and**
- **the AER implement measures to decouple network revenues and energy volumes.**

Australian Government Response

The Australian Government supports this recommendation in principle, and will work with SCER to initiate appropriate rule change proposals based on the AEMC's final (rather than draft) report.

At the SCER meeting on 14 December 2012, Ministers agreed to progress work on the final recommendations of the AEMC Power of Choice review, including that officials should prepare Rule change proposals for consideration by the AEMC. In March 2013, SCER provided its formal response to the recommendations in the Power of Choice review, reiterating this agreement. Two of these rule change proposals will address the intent of the committee's recommendations, namely:

- Reform of the distribution pricing principles to provide better guidance for setting cost reflective distribution network charges; and
- Reform of the demand management and embedded generation connection incentive scheme available to distribution businesses.

In the Power of Choice Review final report, the AEMC explained that these measures together will contribute to decoupling network revenues and energy volumes as follows:

- Where network charges better reflect the cost of delivering electricity, lower sales revenue would also reflect lower costs to the business and therefore would not affect its profits.
- Since there are practical limitations to applying fully cost reflective network charges, the demand management incentive scheme should remove any remaining disincentives to develop cost-effective initiatives that result in lower volumes, by allowing network businesses to recover lost profits resulting from these projects. Businesses would continue to recover their allowed revenue in each regulatory period, with the benefits of lower network investment returned to customers in the next period.

The AEMC is the final decision maker on implementing the rule changes. The AER is then responsible for implementing measures in accordance with the new rules.

Recommendation 5

The committee recommends that the AEMC set and AEMO implement national reliability standards that take into account consumers' perceived value of reliability and in a way that is independent of businesses that derive income from network infrastructure.

Australian Government Response

The Australian Government notes this recommendation in the context that SCER has work underway which will inform the detail of decisions on how to set and implement improvements in delivering reliability outcomes.

At its December 2012 meeting, SCER noted that consumers, large or small, place a high value on being confident of a reliable supply of electricity and that providing this reliability requires investment in network infrastructure. The costs associated with this investment get passed on to consumers through their electricity bills. As a result, it is important that the level of reliability that networks provide reflects the price that consumers are willing to pay.

As reflected in response to recommendation 3, SCER has agreed to task the AEMC with developing a nationally consistent framework for expressing, delivering and reporting on distribution and transmission reliability outcomes. COAG has subsequently agreed in-principle to transfer the application of this new framework once developed to the AER (rather than AEMO as proposed by the committee). Jurisdictions will report to SCER by the end of 2013 on their decisions on the transfer of this responsibility.

Recommendation 6

The committee recommends that the proposal in the AEMC *Economic Regulation of Network Service Providers* rule change to give the AER ex post scrutiny powers is implemented as part of that rule change process.

Australian Government Response

The Australian Government does not support this recommendation.

As outlined in response to Recommendation 3, on 15 November 2012 the AEMC released its final determination on the rules governing the economic regulation of network businesses. The Government notes that the new rules introduce regulatory tools so the AER can incentivise network service providers to invest capital efficiently. This includes the ability of the AER to review the efficiency of past capital expenditure when assessing expenditure proposals from network businesses and setting future expenditure allowances and preclude inefficiently incurred expenditure from being rolled into the regulatory asset base (RAB). It is important to recognise that this only affects the capital expenditure, which is one of several components of network revenues, with the return on the regulated asset base and the operating expenditure also contributing to network revenues.

Under this approach, the AER's ability to preclude expenditure being rolled into the RAB is limited to capital overspends incurred during a regulatory period and does not extend to the whole revenue determination. The Government considers that the application of ex post reviews to the entire revenue determination is not consistent with best practice regulation, as it would undermine the certainty in regulatory outcomes needed to support prudent investment in long-lived assets. Limiting ex post review to capital overspends, as specified in the AEMC's final determination, introduces an incentive for network businesses to only undertake efficient investment, thereby ensuring consumers are not paying more than is necessary to support their long term interests.

Recommendation 7

The committee recommends that the AER receive additional funding, expertise and accountability including that in recommendations of the *Limited Merits Review Regime Stage Two Report* in relation to appeals processes.

Australian Government Response

The Australian Government supports this recommendation.

The Australian Government has committed to additional funding of $23.2 million (over four years) to the AER to deliver a stronger, better resourced and more accountable regulator. The extra resources will allow the AER to access greater expertise when undertaking a determination and clear powers to collect and publish information. This will help the AER to benchmark network businesses and improve network efficiency.

At its December 2012 meeting, COAG welcomed a proposed independent review of the AER and its operational requirements by the Commonwealth in 18 months' time. The review will ensure that the AER's resourcing is adequate, and its operational arrangements are effective, to meet the demands of the new regulatory regime.

At its December 2012 meeting, SCER agreed to accelerate improvements in the appeals process for revenue and price decisions made by the AER, to ensure this process is focused on delivering overall outcomes that are beneficial for consumers while providing an effective back-stop for network businesses. SCER is currently testing the options for changes to the limited merits review regime as recommended by the Expert Panel through a consultation process (see response to recommendation 3).

Recommendation 8

The committee recommends that the AEMC consider how broader environmental considerations could better align with the operation and regulation of the NEM.

Australian Government Response

The Australian Government does not support this recommendation.

This issue has previously been the subject of detailed analysis by the AEMC in conjunction with the other energy market institutions. In 2009 the AEMC undertook a Review of Energy Market Frameworks in light of Climate Change Policies and concluded that there was no cause for fundamental reform of the NEM. The AEMC's functions relate to market development and rule change in the NEM. It does not assess environmental policies themselves.

Judgements on the relative value of the environment as against other social and economic factors are appropriately made by parliaments. The National Electricity Objective is already flexible to take account of judgements about the economic value of environmental objectives, where made by the appropriate institutions. For example, with respect to the environmental impacts of climate change, the Australian Government has developed a Clean Energy Future plan that includes a mechanism to price carbon emissions. Electricity market institutions will take the carbon price into account in their judgement about what would promote efficient investment and use of electricity services.

The Australian Government's policies, as articulated in the Clean Energy Future plan and the Energy White Paper, including the carbon pricing mechanism and the Renewable Energy Target, will drive the transformation of the sector to cleaner electricity. While the Government does not support initiating another broad review by the AEMC on these issues, the AEMC will take the effect of these policies into account in its ongoing Rule change and market development work.

Recommendation 9

The committee recommends that SCER agree to introduce cost reflective pricing for electricity in conjunction with smart meters in all jurisdictions in the NEM:

- **based on the model proposed in the *Power of Choice* draft report comprising three consumption bands for large (band 1), medium to large (band 2) and small to medium (band 3) consumers;**
- **where smart meters are mandated for consumption band 1, opt-out for band 2 and opt-in for band 3; and**
- **accompanied by a comprehensive consumer information and education campaign funded by the Commonwealth, state and territory governments during both the planning and implementation phases.**

Australian Government Response

The Australian Government supports the recommendations on pricing reform in principle, and will work with SCER to initiate appropriate models for implementation based on the AEMC's final (rather than draft) report.

COAG's new energy market reform agenda includes agreement that a transition to more cost reflective pricing structures is likely to be an important enabler of demand side participation.

At the December 2012 SCER meeting, Ministers agreed to develop the market settings to allow for jurisdictions to provide customers with the option to move to time-varying pricing and, in states without an existing widespread roll-out, an opt-in policy for the supporting metering infrastructure.

The new energy market reform agenda also includes agreement to develop arrangements necessary to encourage the market-driven (business-led) competitive roll-out of smart meters and other advanced metering, while accommodating arrangements in jurisdictions where a widespread roll-out is underway. This means that businesses will be able to compete to provide meters that support the products and services chosen by customers.

At the December 2012 SCER meeting, Ministers agreed that officials should prepare a Rule change proposal for consideration by the AEMC which reflects this agreement.

The Australian Government notes the importance of consumer education and information on any such reforms, however considers the form and resourcing of any campaign is a matter for consideration once the detail of policy is progressed.

Recommendation 10
The committee recommends that SCER examine incorporating the accreditation and regulation of third parties offering demand management services in the National Energy Customer Framework (NECF).

Australian Government Response
The Australian Government supports this recommendation.

The Energy Market Reform Working Group of SCER officials has established a sub-group which is examining a range of issues arising from the National Smart Meter Consumer Protection and Safety Review Officials' Report, including the scope of any energy-specific regulation of third party service providers. This group will take in to account the recommendation from the AEMC's Power of Choice review that the regulatory treatment of third party providers of demand side participation energy services be clarified. SCER is due to report to COAG on the implementation and forward plan for a comprehensive demand side participation package, based on the recommendations of the AEMC's Power of Choice review, by June 2013.

Recommendation 11
The committee recommends that SCER:

- **examine current barriers to embedded generation, particularly those related to network design, connection and costs, as well as Feed in Tariff (FiT) payments;**
- **empower relevant state and territory ombudsmen and / or tribunals to intervene where embedded generators and NSPs are unable to resolve disputes;**
- **standardise connection processes for embedded generation in the NEM and include a requirement for a standard connection protocol and licencing regime for embedded generation within the NEM;**
- **direct the AEMC to develop a rule change requiring the release of annual maps of network constraints and their value by network businesses; and**
- **direct the AEMC to develop a rule change to establish a default system of location-specific network support payments for embedded generation.**

Australian Government Response
The Australian Government notes this recommendation. The headings underlined address each of these recommendations in turn.

Examine barriers to embedded generation

The AEMC considered the development of the distributed generation sector (also known as embedded generation) as part of the Power of Choice review; the final report of the review was published on 30 November 2012. The Australian Government does not consider there is a need for an additional review at this point while these rule change processes and reviews are being implemented.

In the Power of Choice review, the AEMC found that issues faced by the distributed generation sector in the National Electricity Market can be addressed through existing processes, including the option of Rule change proposals. The Australian Government agrees with this view, and notes that a number of reforms are in place or underway to support distributed generation, as noted below.

Through SCER, the Australian Government has advocated that payment for electricity exported to the grid from embedded micro-generation should more accurately reflect the true value of that electricity, regardless of the form of micro-generation technology deployed. Several jurisdictions have completed or are in the process of reviewing feed-in tariff arrangements for micro generators with the view to determining fair and reasonable value of exported energy and eliminating cross subsidisation by other electricity consumers. COAG agreed that the National Principles for Feed-in Tariff Schemes be amended to state that all forms of micro generation technologies should be offered a fair and reasonable tariff and to close premium schemes to new participants by 2014.

Empower ombudsmen or tribunals to intervene to resolve disputes

The Ministerial Council on Energy (now SCER) has developed a new national framework for distribution network connections for retail customers, including those with distributed generation. The framework includes provisions for dispute resolution by the AER. The framework will form a new Chapter 5A of the National Electricity Rules (NER), which will be adopted in each jurisdiction at the same time as it adopts the National Energy Customer Framework. To date, the NECF has been adopted by Tasmania, the Australian Capital Territory and South Australia. New South Wales is expected to implement the NECF on 1 July 2013 and Victoria on 1 January 2014. Queensland is considering its position on the matter.

Standardise connection processes for embedded generation in the NEM

Chapter 5A will also establish a consistent connections framework for retail customers with embedded generation. Distribution Network Service Providers (DNSPs) will be required to provide a model standing offer to connect customers with micro-embedded generation such as domestic photovoltaic systems, and have the option of developing standard offers for other classes of connections, such as larger embedded generation systems. The framework also streamlines processes for negotiated connections.

The AEMC is also considering a Rule change proposal from stakeholders intended to improve the connection process, technical requirements and charging regime for embedded generation connections.

A Rule change requiring the release of annual maps of network constraints and their value by network businesses

New, nationally consistent network planning and expansion Rule changes commenced on 1 January 2013 that require DNSPs to publish annual planning reports, including information on network constraints, which will help identify opportunities or limitations for embedded generator connections.

A rule change to establish a default system of location-specific network support payments for embedded generation

As part of their demand management practices, DNSPs currently have the option of contracting with an embedded generator to provide network support in order to avoid or defer the need for network investments. These are commercial arrangements that take advantage of specific opportunities for avoided or deferred network investment.

Through SCER, the Government is working to develop market frameworks that create appropriate incentives for DNSPs to identify and invest in demand side projects, including embedded generation, where this is the most efficient option. This includes the network planning and expansion Rule changes noted above, which will provide more information to project developers on the opportunities for embedded generation to address network constraints.

These Rule changes also include a new Regulatory Investment Test for Distribution, which will require DNSPs to assess the costs and benefits of each credible option, including non-network solutions, to address a specific network problem. DNSPs will also be required to develop a demand side engagement strategy setting out their processes and procedures for assessing non-network options and interacting with non-network providers.

The Australian Government considers that this framework will enhance opportunities for efficient investments in embedded generation and is not considering new market arrangements to pay embedded generation for network support at present.

Recommendation 12
The committee recommends that SCER direct the AEMC to:

- **review the NER so that network charges for embedded generators reflect the cost of using only the relevant section of the network; and**
- **implement changes to the regulatory framework in order to provide incentives for generators to build in locations where the costs associated with transmission are reduced.**

Australian Government Response
The Australian Government notes this recommendation. The headings underlined address each of these recommendations in turn.

Network charges for embedded generators

Under the National Electricity Rules, embedded generators do not face a charge for exporting electricity to the grid.

The Standing Council on Energy and Resources is not presently considering arrangements which would allow embedded generators to export electricity to private customers over the public grid.

<u>Incentives for generators to build in locations where the costs associated with transmission are reduced</u>

Issues around generator location decisions have been considered by the AEMC in its Transmission Frameworks Review, which was publicly released on 11 April 2013 and is now being considered by SCER.

The National Electricity Rules require that distribution networks pay embedded generators for transmission costs which the distribution network can avoid because the generator is present. This provides embedded generators with a signal about the impact of their location decisions on transmission costs.

Transmission costs are generally paid by distribution networks, and include a component that signals the cost of connecting to the transmission network at a particular location.

When an embedded generator connects to a distribution network and is operated appropriately, the distribution network may draw less power from the transmission network upstream, resulting in lower costs for using the transmission network.

The distribution network is required to pass any such lower costs back to the embedded generator.

<u>Recommendation 13</u>
The committee recommends that the AEMC investigate ways in which greater transparency can be introduced in negotiations between transmission businesses and generators.

Australian Government Response
The Australian Government notes this recommendation.

Issues around negotiations between generators and network businesses have been considered by the AEMC in its Transmission Frameworks Review, which was publicly released on 11 April 2013 and is now being considered by SCER. The Australian Government will examine what additional work is required on this issue in light as part of these considerations by SCER.

Recommendation 14
The committee recommends that National Energy Customer Framework (NECF) is implemented in all states and territories in the NEM in a way that does not diminish from existing consumer protections and to take effect on or before 1 July 2013.

Australian Government Response
The Australian Government supports this recommendation in principle.

The Australian Government agrees it is important to commence the NECF consistently, and as early as possible, in keeping with previous commitments. However, it notes the timing of the commencement of the NECF in a state or territory is a matter for the participating jurisdiction to determine. On 14 December 2012, SCER reiterated COAG's commitment to ensure that remaining jurisdictions implement the NECF by no later than 1 January 2014, subject to the resolution of any outstanding issues. Tasmania and the ACT implemented the NECF from 1 July 2012. South Australia implemented the NECF on February 2013. NSW aims to implement the NECF from 1 July 2013. Victoria aims to implement the NECF from 1 January 2014 subject to the resolution of outstanding issues around smart meters and related consumer protections. The Queensland Government is considering its position on NECF implementation through its Inter-Departmental Committee on Electricity Sector Reform (IDC).

Recommendation 15
The committee recommends that SCER consider establishing a national consumer advocacy body to represent and support consumers in the NEM.

Australian Government Response
The Australian Government supports this recommendation.

SCER is currently examining options to increase consumer engagement across the energy sector generally, in the NEM and Western Australia (WA) and the Northern Territory (NT). In recognition of the need for a more efficient approach to national advocacy for energy consumers, SCER has requested advice on an implementation model for a national energy advocacy body. On 22 January 2013, the SCER Energy Market Reform Working Group appointed two expert advisors – Dr John Tamblyn and Mr John Ryan – to provide a written report on an implementation model for a national energy consumer advocacy body for consideration by SCER by mid-2013.

In addition, the Australian Government has established a Consumer Challenge Panel to provide expert advice to the AER in relation to specific network business determinations. AER aims to establish the panel by July 2013.

Under the COAG energy market reform agenda as agreed on 7 December 2012, the Australian Government is working with SCER to amend the criteria for Consumer Advocacy Panel (CAP) grant allocation within the *AEMC Establishment Act* regulations. The aim is to ensure that the allocation of consumer grants is done in a manner which most benefits energy consumers generally.

COALITION RECOMMENDATIONS

Recommendation 1
That the government act immediately to reduce the upward pressure on electricity prices on consumers and business by repealing the carbon tax.

Australian Government Response
The Australian Government does not support this recommendation.

The Government is committed to reducing Australia's greenhouse gas emissions. The most environmentally and cost effective way to achieve this is through a carbon price. A market based approach allows businesses to make decisions on how best to manage their emissions – including by investments in low emissions technologies or energy efficiency measures – while still supporting Australia's economic growth.

The Government's Clean Energy Future plan provides an economically responsible pathway to achieve this balance. The Government, through its Household Assistance Package, will ensure that those Australians that need help the most, particularly pensioners and low and middle income households, will get assistance to help manage increases in the cost of living from the carbon price.

The $23 per tonne carbon price has added around 10 per cent to household electricity prices in 2012-13, increasing household expenditure on electricity by around $3.30 per week on average. Households will see overall cost increases of $9.90 per week, on average, while the average assistance will be $10.10 per week.

Over half of the revenue from the carbon price will be used by the Government to cut taxes and increase payments for millions of Australians. The rest will be used to support jobs and competitiveness and build a new clean energy future. This will assist households in managing increases in the cost of living from the carbon price, and help industries transitioning to a clean energy future.

Recommendation 2
That the government act immediately to reduce the upward pressure on electricity prices on consumers and business by repealing the carbon tax.

Australian Government Response
As per the response to the above recommendation.

GREENS RECOMMENDATIONS

Recommendation G1

That the National Electricity Objective be re-written to include an environmental objective and an Objective there are no regulatory barriers to demand management, energy efficiency and distributed generation.

Australian Government Response

The Australian Government does not support this recommendation.

The National Electricity Market Objective - the aim of which is the promotion of the long-term interests of energy consumers, with regard to price, quality and reliability of electricity and gas services, as contained within the National Electricity Law, the National Gas Law and the National Energy Retail Law, remains appropriate to the operation of Australia's National Electricity Market.

The Australian Government's Energy White Paper (released October 2012) noted that the Objective and its underlying principles, "as currently defined, remain appropriate to current and future energy policy needs and that they provide a robust basis for market regulation and development." The White Paper also stated that "[g]iven that no regulatory or market failure associated with the overall objectives in the Australian Energy Market Agreement has been identified, making such changes would risk introducing unnecessary complexity and potential confusion for market operators, regulators and participants. It is also unclear how non-energy policy goals, which differ across jurisdictions, could be coherently reflected in a single set of national market rules. These issues are best dealt with outside the market settings through direct and targeted policy, as this allows for properly targeted, efficient and effective outcomes."

Recommendation G2

That the Standing Council on Energy and Resources, in consultation with the AEMC and AEMO, develop reforms and rule-changes to establish AEMO as a single NEM-wide planning agency.

Australian Government Response

The Australian Government notes this recommendation.

See response to Recommendation 3. This matter has been considered more broadly as part of the AEMC's Transmission Frameworks Review, which was publicly released on 11 April 2013 and is now being considered by SCER.

Recommendation G3
That the AER implement revenue caps for all Distribution networks to de-couple network revenue and energy consumption.

Australian Government Response
The Australian Government does not support this recommendation.

Reviewing network frameworks in light of changes in demand is being considered by SCER as part of its energy market reform program. In December 2012, SCER committed to assess whether the forecasting and investment frameworks within the current regulatory regime are sufficiently flexible and dynamic to adjust to changing demand conditions. This commitment is designed to ensure that any benefits associated with reducing demand can be shared between network businesses and consumers.

In the Power of Choice Review, the AEMC considered the incentives for distribution businesses under revenue and price caps to undertake demand side participation projects. Under a revenue cap, a distribution business is certain of the revenue it will recover and so will be indifferent if a demand side project lowers its volume of sales. However, the AEMC considered that a distribution business under a revenue cap has very little incentive to set efficient prices that will signal costs of supplying electricity, because consumer responses to its prices have no impact on the revenue it earns. The AEMC considers that efficient prices are a key driver of demand side participation. The Productivity Commission adopted a similar position in the draft report of its review of network regulation.

In the Power of Choice Review, the AEMC has proposed options to compensate distribution business for lower sales from specific demand side projects through the Demand Management and Embedded Generation Connection Incentive Scheme.

Recommendation G4
That the Department of Climate Change and Energy Efficiency and the Department of Resources, Energy and Tourism, in partnership with the Australian Energy Regulator, commission an independent study into the costs and benefits of a peak demand target and design options.

Australian Government Response
The Australian Government does not support this recommendation.

The AEMC considered the issue of demand side participation targets or peak demand reduction targets for distribution businesses as part of the Power of Choice Review. The AEMC did not support this option, since it is difficult to identify the optimal level of the target and avoid overinvestment in demand side peak reduction simply to meet the target. The AEMC has proposed an alternative option which provides distribution businesses with an appropriate return for their demand side projects which deliver a net cost saving to customers across the supply chain. At the December 2012 meeting, SCER agreed that officials should prepare a Rule change proposal which gives effect to this recommendation.

As part of the Energy Savings Initiative (ESI) investigation, a report was commissioned which considered a number of options for addressing peak demand through an energy efficiency scheme. One of these options was peak demand targets for supply-side entities. For the purposes of assessing the merits of a possible national ESI, the ESI Working Group decided not to further investigate peak demand targets. Instead, for the purpose of their investigation, the Working Group considered that a practical approach to address peak demand through a possible national Energy Savings Initiative could be to weight activity value to reflect the likely impact of each activity on peak demand and network productivity.

Recommendation G5
That the SCER directs the AEMC to review the costs and benefits of introducing a capacity-market, or capacity-elements, into the NEM to facilitate higher levels of demand-side participation.

Australian Government Response
The Australian Government does not support this recommendation.

The AEMC considered the introduction of a capacity market as part of its Review into Energy Market Frameworks in light of Climate Change Policies and concluded that there was no cause for fundamental reform of the NEM. In addition, evidence from WA indicates that having a capacity market in addition to an energy market can result in inefficient costs for consumers, where they are faced with paying for costs associated with capacity that is not fully utilised.

In the Power of Choice review of demand side participation in the National Electricity Market, the AEMC recommended an additional option for demand side resources to participate directly in the wholesale market and receive the spot price for energy not consumed, measured against a baseline of normal consumption. At the December 2012 SCER meeting, Ministers agreed that AEMO should begin work to further develop this option.

Recommendation G6
That a standard connection, fair pricing and licencing regime for distributed generation be established, supported by a distributed generation ombudsman within the Australian Energy Regulator.

Australian Government Response
The Australian Government notes this recommendation.

The Australian Government is pursuing reforms to the regulatory regime for distributed generation, including on connection and fair pricing, as outlined in the response to Recommendation 11. This includes a role for ombudsmen and the AER in resolving disputes. While there is no requirement for distributed generators to be licenced as such, recent rule-changes establish new registration arrangements for those distributed generators that participate in the wholesale market. The Australian Government considers these reforms meet the intent of recommendation G6.

<u>Recommendation G7</u>
That the Federal Government implement a national energy intensity target and the National Energy Savings Initiative.

Australian Government Response
The Australian Government supports this recommendation in part.

An aspirational national energy intensity target and a national Energy Savings Initiate (ESI) were recommended in the October 2010 report of the Prime Minister's Task Group on Energy Efficiency (PMTGEE). In July 2011, the Government responded to the PMTGEE report in the 'Clean Energy Plan' and decided not to support proceeding with an aspirational national target. The Government has decided to investigate the merits of a possible national ESI. Subject to economic modelling and analysis of potential regulatory impacts, which is expected to be finalised by mid-year, the Government will make a decision on whether to seek to negotiate the adoption of a national ESI with COAG. A national scheme would be conditional on the endorsement of COAG and agreement that existing and planned state schemes are folded into any national scheme.

SENATOR XENOPHON RECOMMENDATION

<u>Recommendation</u>
The AEMC conduct a thorough investigation into the impact renewable energy schemes, both federal and state-based, have had on electricity prices since 2008, with a view to maximising the environmental benefits at the lowest cost to consumers. Further, such a review should investigate the long-term benefits of encouraging investment in baseload renewables.

Australian Government Response
The Australian Government notes this recommendation.

During 2011 the AEMC undertook a review entitled: Impact of the enhanced Renewable Energy Target on energy markets. Analysis included the cost impacts and abatement benefits of the Large-scale Renewable Energy Target, the Small-scale Renewable Energy Scheme and also considered state and territory based premium feed-in tariff arrangements (see www.aemc.gov.au/market-reviews/completed/impact-of-the-enhanced-renewable-energy-target-on-energy-markets.html).

Modelling undertaken in the review estimated the total compliance costs of the enhanced RET would decrease from 0.93 c/kWh in 2011/12 to 0.64 c/kWh in 2015/16 and then increase slowly to 0.77 c/kWh in 2019/20 in the presence of the carbon price. Compliance costs for the enhanced RET are substantially lower with a price on carbon compared to no carbon price.

In the second half of 2012, the independent Climate Change Authority completed a statutory review of the RET scheme. The modelling conducted for the review showed the impact of the RET scheme on retail electricity prices to be modest, particularly as wholesale electricity prices are suppressed by the additional supply of renewable energy. This downward pressure on wholesale electricity prices at least partially offsets the RET certificate costs and therefore the costs of complying with the RET. The modelling estimates that over the period 2012/13 to 2030/31 the impact of the RET scheme on the average household bill (assumed to be consuming 7 MWh per year) would be less than 1 per cent (or $15 per year).

State and Territory Governments have largely closed their premium feed-in tariff (FiT) schemes to new customers such that FiT payments to new participants will avoid cross subsidisation by other electricity users. Several jurisdictions have recently reviewed FiT arrangements with the aim of determining fair and reasonable value (cross-subsidy free) for micro generated energy, further analysis is considered unnecessary at this time. In December 2012 COAG endorsed the amendment of the National Principles for Feed-in Tariff Schemes which includes the phasing out of premium schemes by 2014.

It is acknowledged that there will be legacy costs for some premium schemes into the future as existing premium FiT scheme participant's contracts are honoured and these costs will generally be met by all consumers in the respective jurisdiction.

In 2012, COAG committed to developing a national approach to assessing the complementarity of existing and future climate change measures with the carbon price mechanism, as well as to fast track and rationalise policies and programs that are not complementary to a carbon price, or are ineffective, inefficient or impose duplicative reporting requirements on business.

In early 2013, the Select Council on Climate Change (SCCC) provided a report to COAG prepared by the Complementary Measures Working Group providing outcomes of reviews undertaken by the Commonwealth, States and Territories of carbon reduction and energy efficiency measures for their complementarity with a carbon price. Jurisdictions reported that 5 measures will be, or have been, rationalised and 18 measures will be discontinued, resulting in reduced compliance costs for business, including for the electricity supply sector, which may flow through to electricity prices.

In addition to this review activity, in 2012 COAG agreed that the Business Advisory Forum Taskforce, established following the Business Advisory Forum held in April 2012, would provide advice to COAG on the overall review outcomes of the SCCC process and whether any further reform action is required. In April 2013, the Taskforce advised COAG that based on advice provided by jurisdictions, the COAG agreed reform outcome appears to have been met for all measures reviewed by the SCCC. In terms of measures not considered by the SCCC process, the BAF Taskforce advised that the majority of identified remaining measures do not appear to impose mandatory or regulatory obligations on business or, where regulatory obligations are imposed, these do not appear to be significant and that few of these remaining measures appear to be non-complementary to the national carbon price.

In the second half of 2012, the Independent Climate Change Authority completed a statutory review of the RET scheme. The modelling conducted for the review showed the impact of the RET scheme on retail electricity prices to be modest, particularly as wholesale electricity prices are suppressed by the additional supply of renewable energy. This downward pressure on wholesale electricity prices at least partially offsets the RET certificate costs and therefore the costs of complying with the RET. The modelling estimates that over the period 2012/13 to 2030/31 the impact of the RET scheme on the average household bill (assumed to be consuming 7 MWh per year) would be less than 1 per cent (or $15 per year).

State and Territory Governments have largely closed their premium feed-in tariff (FiT) schemes to new customers such that FiT payments to new participants will avoid cross subsidisation by other electricity users. Several jurisdictions have recently reviewed FiT arrangements with the aim of determining fair and reasonable value (cross-subsidy free) for micro generated energy, further analysis is considered unnecessary at this time. In December 2012 COAG endorsed the amendment of the National Principles for Feed-in Tariff Schemes which includes the phasing out of premium schemes by 2014.

It is acknowledged that there will be legacy costs for some premium schemes into the future as existing premium FiT scheme participant's contracts are honoured and these costs will generally be met by all consumers in the respective jurisdiction.

In 2012, COAG committed to developing a national approach to assessing the complementarity of existing and future climate change measures with the carbon price mechanism, as well as to fast track and rationalise policies and programs that are not complementary to a carbon price, or are ineffective, inefficient or impose duplicative reporting requirements on business.

In early 2013, the Select Council on Climate Change (SCCC) provided a report to COAG prepared by the Complementary Measures Working Group providing outcomes of reviews undertaken by the Commonwealth, States and Territories of carbon reduction and energy efficiency measures for their complementarity with a carbon price. Jurisdictions reported that 5 measures will be, or have been, rationalised and 18 measures will be discontinued, resulting in reduced compliance costs for business, including for the electricity supply sector, which may flow through to electricity prices.

In addition to this review activity, in 2012 COAG agreed that the Business Advisory Forum Taskforce, established following the Business Advisory Forum held in April 2012, would provide advice to COAG on the overall review outcomes of the SCCC process and whether any further reform action is required. In April 2013, the Taskforce advised COAG that based on advice provided by jurisdictions, the COAG agreed reform outcome appears to have been met for all measures reviewed by the SCCC. In terms of measures not considered by the SCCC process, the BAF Taskforce advised that the majority of identified remaining measures do not appear to impose mandatory or regulatory obligations on business or, where regulatory obligations are imposed, these do not appear to be significant and that few of these remaining measures, appear to be non-complementary to the national carbon price.