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Commissioners
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235
By website: www.aemc.gov.au

Dear Commissioners,

Ref: EPR0022 AEMC's Issues Paper: Power of Choice - giving consumers options in the way they use electricity

The Clean Energy Council (CEC) is the peak body representing Australia's clean energy and energy efficiency industries.

Its priorities are to:

- create the optimal conditions in Australia to stimulate investment in the development and deployment of world's best clean energy technologies;
- develop effective legislation and regulation to improve energy efficiency; and
- work to reduce costs and remove all other barriers to accessing clean energy.

The CEC works with members and the government to identify and address the barriers to efficient industry development in the energy efficiency and stationary energy sector.

The clean energy industry and its members contribute to the generation of electricity using wind, hydro, solar, biomass, geothermal and ocean energy as well as the emerging technologies and service providers in the energy efficiency sector including solar hot water and cogeneration.

INTRODUCTION

The CEC is pleased to comment on the AEMC's Review on the Power of Choice - giving consumers options in the way they use electricity Issues Paper to advise on options to improve Australia's energy efficiency.

Demand side participation (DSP) is a crucial component of Australia's bid to reduce its carbon emissions and an important complementary measure to the introduction of a carbon price. Any strategy to improve Australia's energy efficiency needs to be deployed in a holistic way that is complemented by other national and state-based strategies and is consistent with other policies relating to energy.

DSP is also crucial to managing the rising costs of network investment driving retail electricity costs substantially over the next decade. Without effective engagement of the customer base and policies to facilitate these DSP measures, rising electricity prices investment will unnecessarily place a strain on low-income households, placing some at risk of fuel poverty over the coming decade.

The scale of funding flowing into the electricity network every year has to date gone reasonably unnoticed in comparison to the focus that has been directed towards other policy initiatives. A report recently prepared for the CEC by ROAM Consulting found that network costs are the greatest contributor to electricity price rises in Australia, accounting for 40-50 per cent of all household bills. Similarly, Professor Garnaut in the updated review report No.8 found that:

“network costs have risen dramatically since 2006. The high capital cost of investment required in electricity networks is the single largest cause of recent electricity price rises.

Transmission network investment over the current five year regulatory period is forecast at over \$7 billion and \$32 billion for distribution networks (AER 2010a). This represents a rise in investment from the high levels of the previous period, of 84 per cent and 54 per cent (in real terms) in transmission and distribution networks respectively (AER 2010a)”.

The CEC regards the objectives of this review - to identify opportunities for consumers to make informed choices about the way they use electricity and provide incentives for efficient investment in demand and supply side options – as vital to reducing Australia’s demand for energy by addressing some of the barriers to demand side participation.

Effective DSP can enhance reliability and security of supply, save consumers money and improve the efficiency of network investment which in turn can reduce carbon emissions and limit electricity bills. The right market conditions and regulatory arrangements are required across the electricity supply chain to facilitate investment in, operation and use of DSP in the national electricity market (NEM). A comprehensive and coordinated approach is required to achieve efficient investment across the demand and supply sides of the market. Market reform needs to be accompanied by supportive regulatory arrangements and consumer education to address the barriers to the take up of DSP opportunities.

Methodology and assessment criteria for identifying and evaluating market and regulatory arrangements for DSP

In the application of the National Electricity Objective (NEO) and in the context of this study, the CEC considers in critical that the objectives of Government policy are aligned in some way to the rules and objectives of the National Electricity Market. Mis-aligned incentives will continue to act as an ongoing barrier to renewable energy and energy efficiency projects being

facilitated at the level envisaged by State and Federal Governments when first introducing policy measures.

Chapter 3 refers to a key assumption underlying the review that consumers will always make the best decision from their viewpoint, based on the prices they face, the technology and equipment they have access to, the information they have and their individual transaction costs.

It is our view that transaction costs should take into explicit consideration the opportunity cost of time faced by most consumers when it comes to making decisions about energy use. Ensuring DSP policies are geared to take these factors into account looking specifically from the perspective of the consumer is critical, especially given the multiple layers of potential engagement – in retail outlets, through electricity retailers, State and Federal Government programs, network businesses, consumer and welfare organisations.

This ongoing overlapping of areas of responsibility and lack of a coherent co-ordination of energy efficiency policy, has resulted in confusion, a lack of relevant information reaching consumers and ongoing inefficiencies in program delivery. This is reflected in research completed by Auspoll for the Clean Energy Council outlined below.

Consumer participation and DSP opportunities

A nationwide survey of 1000 participants was conducted by Auspoll for the CEC in June 2011. The aim was to specifically consider what the key factors were affecting community appetite for energy efficiency. The survey found that the primary driver behind why consumers may choose to change their electricity consumption patterns is to combat rising energy prices. Environmental concerns are also a factor although secondary to economic reasons.

The same poll found that Australian households wanted more support to save energy and money on their electricity bills. While 95 per cent of people surveyed said they were concerned by rising energy costs and 89 per cent said they were willing to take action to use less energy, half knew little or nothing at all about the key aspects of their energy use.

This confirmed early indications based on enquiries from the public to member companies and to the CEC itself that the appetite in the community for more information is on the rise.

The survey also identified that one of the key factors affecting consumers is a general feeling of a lack of control over their electricity costs and a lack of information about the differences that energy efficiency or energy conservation actions will make on electricity costs.

In order for consumers to be able to make informed choices about the way they use electricity, access to information and data on their own use of electricity is crucial. The Auspoll research found that many people would welcome greater control over their energy usage. There was strong support for the use of home electricity meters that display, in real time, the amount of electricity that households use. Providing accurate information to consumers about their energy use and a detailed breakdown of their billing tariff will lead to consumers being able to

actually see the differences that specific actions make on their energy usage. The roll out of smart metering infrastructure can precipitate this provided it is accompanied by easily accessible and interpretable data for consumers so that they can better monitor their electricity use, identify energy consumption changes and energy saving opportunities.

Improved and coordinated communications on demand side participation is critical. The Auspoll research found that knowledge levels about energy usage were low and there was confusion in a number of areas: the relative difference that various actions would make; the amount of money that could be saved by taking various actions; and the differences between peak and off-peak electricity rates and the times associated with these. However the research also found that 73 per cent of Australians would welcome more information on how they could use less energy or use it more efficiently.

In light of this, the CEC recommends demand side actions being supported by a co-ordinated education and information campaign to assist consumers to make informed choices. This would need to be implemented with a range of policy mechanisms enabling investment in energy efficiency products, improved product labelling, and more effective information resources such as a trusted consumer guide. Recommendations from the Auspoll research in effectively communicating a campaign for energy efficiency are listed in the attached report.

In line with Auspoll's findings that the internet and television ads are the biggest source of information, a household advice line and website to provide information on energy savings actions for households as well as information on all State and Commonwealth support programs is an important aspect of this education campaign. The Auspoll research found that 80 per cent of the community feel that the Government should take a lead on the issue of energy efficiency and also revealed that 59 per cent of people trust the Government most to successfully implement programs designed to assist households to use energy more efficiently. However the discovery that 57 per cent of Australians knew little or nothing about government programs available demonstrates the need for an effective education campaign.

The CEC is advocating for improved and coordinated communications across the industry and government with the establishment of an Energy Efficiency Authority to:

- improve partnerships with industry in future policy development and advice on implementation;
- improve the quality and co-ordination of information on energy efficiency supplied to residential consumers;
- identify potential for streamlining energy efficiency policies across the State and Federal Governments

Market conditions and Regulatory arrangements

As discussed, providing consumers with the opportunity to reflect their own value preferences is important in facilitating and promoting consumer uptake of DSP opportunities. All energy efficiency policies must deliver savings for consumers and overcome pricing barriers.

Price alone cannot be expected to drive the uptake of energy efficiency, especially in low-income households which do simply not have the available capital to upgrade to more energy efficiency appliances.

Prior to pricing being used as a tool to effect behaviour change the Government should ensure appropriate groundwork has been laid to remove the barriers to energy efficiency investments, ensuring consumers have access to programs for support and in particular that low-income households have an effectively operating, sufficiently funded support program.

The CEC advocates for carbon price revenue to be dedicated to fund these low-income support programs. While the \$100 million dedicated in recent policy announcements by the Federal Government makes a start, a significant additional funding will be required to reach the 1 million households identified by ACOSS and the Brotherhood as requiring support by 2020.

The right market conditions and regulatory requirements are required to enable third parties to facilitate consumer decision making. Flexible pricing options, open access and incentives to retailers to encourage the uptake of DSP opportunities are needed.

The key policy mechanism to provide a framework for driving investment in energy efficiency and demand side response across the residential and industrial sectors should be the establishment of a National Energy Savings Initiative. Such a scheme could incorporate and allow for transition of existing state-based white certificate schemes and be extended to those states currently without coverage.

This national approach would allow for a range of energy efficiency goods and services to be provided to energy users within a sustainable framework, which compared with the on-again, off-again grant and rebate processes of the past, provides industry with greater long term certainty for sustainable growth.

National consistency will also reduce transaction costs for obligated parties and reflect the nature of the operation of the electricity market ensuring least cost outcomes. Specific areas of focus for harmonization in the first instance, should include product eligibility, transaction costs and training and accreditation.

The relevant authorities also need to address the barriers to the deployment of smaller scale distributed renewable energy projects. Embedded generation such as solar photovoltaic, cogeneration and trigeneration are vital methods of enhancing a building's energy efficiency and can also assist in the deferral of investment in network infrastructure. The current connection rules and arrangements of the NEM act as a disincentive to the deployment of such projects and the rules need to be altered to make it easier to connect projects. Likewise the approvals process for installing renewable energy equipment needs to be simplified and standardised across jurisdictions to encourage organisations to make such an investment.

Access to capital is vital to bring energy efficiency projects and products to market. Capital support in the form of tax incentives, low interest loans, specific R& D funding and project funding for demonstration projects is also required to ensure the investment needed to bring energy efficiency technologies to the market.

Closing

The Clean Energy Council looks forward to continuing engagement with the AEMC on its review of facilitating efficient investment in, operation and use of DSP. If you have any further questions please contact Felicity Sands via telephone on 03 99294100 or by email: felicity@cleanenergycouncil.org.au

Yours sincerely

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Russell Marsh

Policy Director