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National Electricity Market Campaign

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Submission to Energy Consumer Advocacy Secretariat

A National Electricity Consumer Body

Issues Paper

March 2013

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Total Environment Centre's National Electricity Market Advocacy

Established in 1972 by pioneers of the Australian environmental movement, Total Environment Centre (TEC) is a veteran of more than 100 successful campaigns. For nearly 40 years, we have been working to protect this country's natural and urban environment, flagging the issues, driving debate, supporting community activism and pushing for better environmental policy and practice.

TEC has been involved in National Electricity Market (NEM) advocacy for eight years, arguing above all for greater utilisation of demand side participation (DSP) — energy conservation and efficiency, demand management (DM) and decentralised generation — to meet Australia's electricity needs.

TEC's recent work: win-wins for consumers and the environment

TEC's aim is to ensure that decisions taken in the NEM are win-wins for consumers and the environment, providing lower cost, efficient and reliable electricity, while reduce the environmental impact of our electricity system and mitigating climate change. Our recent work in this area includes:

- The **NEM Report Card**: the first comprehensive assessment of the performance of the NEM to date;
- DSP communications project, which produced a range of materials to assist consumer advocates to communicate effectively about DSP;
- A **Fuel Mix Disclosure Project**, trying to make the fuel mix of retailers more transparent;
- A series of **Demand Management Discussion Papers** concerning important aspects of DM, including reform to encourage networks to undertake DM, the environmental impact of DM measures in the NEM and DM targets; and
- Consistent and extensive engagement with the AEMC's **Power of Choice** review, the AER's **Economic Regulation of Networks** rule change process, and a range of other reform and regulatory processes relevant to environmental outcomes in the NEM.

Despite there being a multitude of energy consumer advocacy organisations, no other organisation is primarily focused on improving environmental outcomes in the NEM.

A new consumer body

TEC is a strong supporter of a new national consumer body, augmenting current advocacy group arrangements, and was a member of the working group that created the Energy Consumers Australia (ECA) Business Plan. We strongly support the proposed ECA being the template for the new body, while recognising that there are elements that could be improved. We therefore welcome the opportunity to provide input into this important process. Consistent with the issues raised in the Preliminary Statement of Issues and Questions for Consultation, we summarise below our position on three key issues: structure, objects and funding. We then outline in detail our position regarding a new consumer body as it relates to environmental outcomes in the NEM.

Key issues

Structure

Like other energy consumer groups, we support model D outlined in Renouf's report *Making Energy Markets Work for Consumers: The Role of Consumer Advocacy*, i.e. a "Small National Energy Advocacy Centre, together with continued funding of jurisdiction-specific advocacy services." We do not think that the new body will have legitimacy if it replaces the well-established jurisdictional and special interest advocacy organisations that are well known to the community. These bodies represent a diverse mix of interests and provide valuable input to regulatory and reform processes, whereas a national body risks homogenising advocacy and marginalising many interests.

While we do not hold a strong opinion on the legal structure of such a body, we feel that independence from government is critical to ensuring that the body has, and is perceived as having, a legitimate voice. We also favour a structure that mandates representation from a broad range of jurisdictional and sectoral or specialist organisations, so that it cannot either be captured by one lobby group or conversely be restricted to representing only 'mainstream' consumers.

The best way for this to happen, and for it to have ongoing credibility within the sector, with industry and government and in the general population, may be for the new body to be a peak body with members drawn from consumer groups with demonstrated energy expertise. This model appears to have been mostly successful in the case of the Australian Communications Consumer Action Network (ACCAN).

We do not consider that the body needs to represent large consumers of electricity, and feel that their inclusion would be to the detriment of smaller consumers. Large electricity users are already given a united voice and are represented by established groups, such as the Major Energy Users. Large consumers have a greater capacity to fund advocacy than small consumers, and, as the two often have separate interests and concerns, there is a risk that those of large consumers will overshadow those of small consumers.

Finally, we consider that the new Consumer Challenge Panel should be appointed by and accountable to the new consumer body. Otherwise it may lack credibility as a consumer voice, especially if members are appointed by the government of the day.

Objects

TEC believes it is best for the body to have a single overarching object or aim, rather than the numerous sub-objectives currently in the ECA plan. The first 2 of these objects are the most important, and could easily be combined:

- A single national advocacy voice for consumers.
- Secure access to affordable, reliable, safe, and environmentally sustainable energy services for all consumers.

We would not support the objects being constrained by consistency with the current national electricity objective (NEO), as its sub-objectives fail to include affordability or environmental sustainability, both of which have been neglected by current NEM decision-making process and are the focus of considerable discussion and advocacy from consumer bodies and the subject of numerous recent inquiries, including the 2012 Senate and Productivity Commission inquiries and the review of the Merits Review process.

Funding

We believe that around \$2.5million per annum (plus setup costs) is a reasonable level of funding, and that this should come from a consumer levy *in addition to* existing Consumer Advocacy Panel (CAP) funding.

It is our understanding that the new body will be focusing on additionality and providing a united voice on key issues where there is agreement across all organisations, as opposed to duplicating the important sectoral and jurisdictional advocacy already taking place. As such, we would not support simply 'shuffling' funding in order to create a national body, which would make it appear that small consumers had additional advocacy capacity, but would in fact only be diverting funding away from important existing efforts. Furthermore, more than \$10 billion of energy is traded each year in the NEM, in contrast to the paltry \$250,000 for CAP research projects. No cuts should be made to existing advocacy in this context.

Regarding the relationship of the new body to the CAP, we agree that a 2 year period of concurrent operation followed by a review is too short: 3 years is preferable to allow the new body to find its feet before being reviewed.

Environmental aspects of the NEM

It is our belief that environmental sustainability is a core dimension of the electricity supply system, and that it should be included in the objects of the new body. The environment is both important as a consumer issue, and in itself. Consumers have demonstrated that they are highly engaged with environmental aspects of the NEM and are concerned about climate change and other environmental issues more generally.¹

Environmental performance of the NEM

As evidenced by the quantitative and qualitative criteria detailed in the *NEM Report Card*,² the environmental performance of the NEM is currently poor. Increasing the amount of DSP is an obvious solution, but this is happening only slowly, and there remain systemic barriers. There are other environmental outcomes of the NEM, such as community participation in regulatory approval processes, which would also benefit from increased scrutiny and better solutions.

¹ See e.g. Department of Environment Climate Change & Water (NSW), 'Who Cares about the Environment in 2009? A survey of NSW people's environmental knowledge, attitudes and behaviours', 2009.

² Chris Dunstan, Nicola Ison, Josh Usher, and Stephen Harris, 'The NEM Report Card: how well does the National Electricity Market serve Australia' (Total Environment Centre 2012)

The environment and the NEO

The environmental performance of the NEM is not currently part of the NEO, but has been identified by NEM stakeholders as an important missing criterion for measuring the NEM's effectiveness.³ In 2007, a coalition of seven consumer, environmental and business groups issued the *Power to the People Declaration*.⁴ These organisations stated that they:

have strong misgivings about the current structure of the National Electricity Market (NEM) and believe that it does not address deep seated environmental and social concerns held by the Australian community. Under the new National Electricity Law, market regulators cannot take social or environmental issues into account. However, it is clear that the market, left to its own devices, will not produce good social and environmental outcomes.

Early precursors of the NEO did include environmental concerns. The First Issue of the National Grid Protocol in 1992 had the following goal:

*To encourage the most efficient, economical and environmentally sound development of the electricity industry consistent with key National and State policies and objectives*⁵

In 2001, the Council of Australian Governments agreed on a number of national energy policy objectives, including:

*Mitigating local and global environmental impacts, notably greenhouse impacts, of energy production, transformation, supply and use.*⁶

The excision of the environment from the NEO appears to have been an unfortunate oversight: the *Australian Energy Market Agreement (2006)*⁷ continued to include environmental concerns, but failed to allocate responsibility to any of the NEM's governing bodies. Thus the current NEO was promulgated in 2005 without an environmental component.⁸

Nonetheless, the *Energy White Paper (2012)* continues to place environmental considerations at the centre of energy policy, stating:

³ *ibid*. A survey by the Australian Alliance to Save Energy also showed that consumers want the NEO to reflect environmental concerns (Chris Dunstan, Katie Ross, and Nicole Ghiotto, 'Barriers to Demand Management: A Survey of Stakeholder Perceptions' (Australian Alliance to Save Energy June 2012).

⁴ Total Environment Centre et al., 'Power for the People Declaration', 2007.

⁵ National Grid Management Council, *National Grid Protocol* (First Issue 1992).

⁶ Council of Australian Governments, 'COAG Energy Policy Details: Towards a National Energy Policy', 8 June 2001

⁷ 'Australian Energy Market Agreement', 30 June 2004

⁸ As an amendment to the National Electricity (South Australia) Act 1996. See <[http://www.legislation.sa.gov.au/LZ/C/A/NATIONAL%20ELECTRICITY%20\(SOUTH%20AUSTRALIA\)%20ACT%201996/2007.12.31/1996.44.UN.PDF](http://www.legislation.sa.gov.au/LZ/C/A/NATIONAL%20ELECTRICITY%20(SOUTH%20AUSTRALIA)%20ACT%201996/2007.12.31/1996.44.UN.PDF)> for the 2005 amended version of the Act.

At its core, the Australian Government's energy policy framework is based on a clear vision of building a secure, resilient and efficient national energy system that [inter alia] delivers clean and sustainable energy.⁹

The environment, electricity and consumers

The existing NEO criteria are increasingly related to environmental outcomes, e.g. because the carbon price and other 'green schemes' contribute to price increases, and because DSP has both environmental and price benefits.

Consumers are also aware of these linkages. A Newspoll survey,¹⁰ commissioned as part of our DSP Communications Project, found that consumers are aware that price rises are increasing, and correctly identify rising network charges as the primary cause. Consumers also overwhelmingly believe that they can do more to reduce their energy consumption, but believe that it should be a shared effort, with suppliers and governments also playing their part. More generally, in spite of fluctuations in support there remains a high level of community concern about climate change and other environmental issues.¹¹

Consumer engagement with environmental initiatives

Consumers are already playing a significant part in this effort, and the high engagement with renewable energy and energy efficiency schemes shows their interest. AGL estimates that in the 2008-2012 period, there were almost 2 million solar PV installations in Australia.¹² Rising prices are boosting solar PV uptake,¹³ and, contrary to the perception of solar panels being a middle class subsidies, solar PV is installed by a range of consumers, predominantly lower-income consumers and those in so-called 'mortgage-belt' suburbs.¹⁴

There are also 747,229 solar hot water systems installed,¹⁵ and close to 800,000 customers, mostly residential, that have made the choice to pay more for their electricity, even as prices rise, in order to ensure that it is generated using renewable energy through the GreenPower scheme.¹⁶

⁹ Department of Resources Energy and Tourism, *Energy White Paper: Australia's energy transformation*, 2012.

¹⁰ Newspoll asked 702 adults across the 5 main capital cities a range of electricity-related questions.

¹¹ See e.g. Department of Environment Climate Change & Water (NSW), 'Who Cares about the Environment in 2009? A survey of NSW people's environmental knowledge, attitudes and behaviours'.

¹² <http://aglsolarenergy.com.au/solar-news/2012/12/uptake-of-solar-power-in-australia-infographic/>.

¹³ http://www.energyfarm.com.au/news/general_solar/solar-power-uptake-in-australia-boosted-by-electricity-price-hikes/.

¹⁴ <http://www.theaustralian.com.au/news/far-from-being-middle-class-welfare-solar-panel-uptake-is-surprisingly-strong/story-e6frg6n6-1226509846413>.

¹⁵ <http://www.climatechange.gov.au/en/government/initiatives/~media/government/initiatives/solar-hot-water/rebs-final-report-pdf.pdf>.

¹⁶ 737,263 small consumers and 47,832 commercial consumers. See National GreenPower Accreditation Program, Quarterly Status Report, Q2 2012 <http://www.greenpower.gov.au/News/GreenPower-Quarterly-Report-Published/~media/A7F771C46AE347E9A2F24A000BAE1AAD.pdf>.

The International Energy Agency notes that Australia “has not consciously or explicitly targeted world best practice in energy efficiency policy and, by comparison with other countries, has significant gaps in its energy efficiency policy armoury”.¹⁷ In spite of this incomplete support from government, research shows that most consumers support energy efficiency,¹⁸ and close to 90% of Australians take steps to limit their personal electricity use.¹⁹ Gathering statistics on the uptake of specific energy efficiency measures by consumers is difficult because the approach to policy in Australia has been piecemeal and overlapping.²⁰ However, the Victorian Energy Efficiency Target resulted in 932,511 energy efficiency installations over the 2009-2012 period,²¹ while the South Australia Residential Energy Efficiency Scheme benefited 166,819 premises in 2009-2011.²² Other discrete energy efficiency programs have been successful, e.g. the Federal Government’s former ceiling insulation program, which became a victim of its own success as 2 million homes took advantage of this program.²³

The NEM and the environment: conclusion

It is thus clear that the current focus on short run marginal cost as the sole determinant of efficiency is inherently problematic. It is a flaw of the NEO and the NEM as currently constructed. This flaw should not be replicated by a new consumer body by limiting its scope. In any case, ‘efficiently priced’ is ambiguous and needs clarifying, i.e. it could incorporate energy efficiency activities with a longer payback period, or refer solely to the short run marginal cost.

All of the above points to the high level of importance consumers place on the environment and the crucial role for DSP in the NEM. As such, the new consumer body’s objects must include environmental sustainability. The long term interests of consumers must be about both supply- and demand-sides, and consumer and environmental organisations generally have strong shared views about energy efficiency and DSP on the demand-side, in light of the win-win outcomes this can generate.

¹⁷ <http://www.climatechange.gov.au/~media/submissions/pm-taskforce/report-prime-minister-task-group-energy-efficiency.pdf> 36.

¹⁸ <http://www.climatechange.gov.au/~media/submissions/pm-taskforce/report-prime-minister-task-group-energy-efficiency.pdf> 100.

¹⁹ <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/4626.0.55.001main+features42011-12>.

²⁰ <http://www.climatechange.gov.au/~media/submissions/pm-taskforce/report-prime-minister-task-group-energy-efficiency.pdf> 37.

²¹ <https://www.veet.vic.gov.au/Public/Pub.aspx?id=295> 20.

²² http://www.escosa.sa.gov.au/library/120629-REES_2009-2011SummaryReportCard.pdf.

²³ <http://www.brisbanetimes.com.au/queensland/insulation-scheme-a-victim-of-its-own-popularity-20100210-nrvz.html>.

Recommendations

The current process to establish a national energy consumers' body should adopt the ECA Business Plan as its recommended model, with the following amendments:

1. There should be a single object for the new body, combining in their entirety the first two objectives in the ECA Business Plan and not constrained by the existing sub-criteria by which the NEO is assessed.
2. A governance structure should be adopted which mandates representation from a broad range of jurisdictional and sectoral or specialist organisations, perhaps by it being a peak body with members drawn from consumer groups with demonstrated energy expertise.
3. The new Consumer Challenge Panel should be appointed by and accountable to the new consumer body.
4. The period of coexistence of the new body and the CAP before a review of arrangements should be increased from 2 to 3 years.

Yours sincerely,



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