

#### TOTAL ENVIRONMENT CENTRE INC.

National Electricity Market Campaign

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## Submission to COAG Taskforce

# **Regulatory and Competition Reform**

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## **Total Environment Centre's National Electricity Market Campaign**

Established in 1972 by pioneers of the Australian environmental movement, Total Environment Centre (TEC) is a veteran of more than 100 successful campaigns. For over 30 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 — energy efficiency, demand management and decentralised generation — to meet Australia's electricity needs. By reforming the NEM we are working to contribute to climate change mitigation and improve other environmental outcomes of Australia's energy sector, while also constraining retail prices and improving the economic efficiency of the NEM — all in the long term interest of consumers.

We appreciate the opportunity to provide a submission to the COAG taskforce. Our response below is restricted to matters relating specifically to the NEM, our area of expertise.

## The NEM and the Long-Term Interests of Consumers

We note that the COAG Taskforce's mandate in relation to the NEM is to "improve competition and the efficiency of electricity networks so that energy regulation places greater weight on the outcomes for consumers".

The long term interests of consumers are many and varied, and competition and efficiency are only two factors that should be considered by COAG during the Taskforce process. Consumers also see environmental protection, protection of vulnerable customers, and energy efficiency as in their long term interests. Therefore, short-term economic efficiencies should not be the only outcome by which NEM reform should be judged.

## The National Electricity Objective

The National Electricity Objective (NEO) is the guiding principle of the NEM: all NEM rules must be made in accordance with the NEO. The NEO, as it currently stands, is to ensure:

efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to— (a) price, quality, safety, reliability and security of supply of electricity; and (b) the reliability, safety and security of the national electricity system.

#### The NEO and Environmental Protection

The NEO is currently worded narrowly, not allowing for the NEM to be regulated so as to produce optimal environmental outcomes. This is an unfortunate oversight as precursors to the NEO included

<sup>&</sup>lt;sup>1</sup> Dunstan, C, Ison, N, Usher, J & Harris, S 2012, The NEM Report Card: how well does the National Electricity Market serve Australia, Total Environment Centre, Sydney 19.

environmental considerations. The Australian Energy Market Agreement (2004) mentions environmental concerns, but fails to allocate responsibility to any of the NEM's governing bodies; this has resulted in poor environmental performance in the NEM to date.

A range of actors have called for reform of the NEO to reflect the broader needs of consumers, including the environment, and environmental objectives feature in similar provisions in other OECD countries. However, no serious effort has been made yet to address the issue in the NEM.

The absence of an environmental criterion in the NEO means that the NEM often works against other climate and environmental policies, rather than supporting them. This is because the narrow focus on economic efficiency does not allow for externalities, such as the long term economic and ecosystem costs of carbon pollution, to be factored in to decision making processes.

This myopia produces perverse outcomes. An example is the asymmetrical power relationship between monopoly transmission networks and wind farm proponents in the connection process, which often results in lengthy delays and unnecessary costs borne by the proponents. Likewise, demand-side alternatives to centralised generation and delivery of electricity are often prejudiced in investment decisions because their non-economic benefits cannot be taken into account.

### Competition

The NEM was intended to eliminate government ownership of NEM actors and reduce integration of utilities, as these act as barriers to effective competition. However, the reality is that the NEM has failed to achieve this objective, and now comprises a patchwork of government-owned entities and vertically-integrated private entities, in addition to the single disaggregated entities that are considered necessary for competition.

#### **National Harmonisation**

There are some areas of the electricity landscape that remain disparate, especially in relation to schemes operating outside the NEM framework.

For example, we support the proposed National Energy Savings Initiative (NESI). We note that the NSW Efficiency Benefit Sharing Scheme (EBSS) has been effective to date, and that there is potential for the EBSS to be folded into the NESI, should it be implemented.

One area where there is a particularly strong case for a consistent national scheme is feed-in tariffs (FiTs), yet the Commonwealth has neglected to take a leadership role here. FiTs, and those that have relied on them, have been decremented by a lack of national coordination, and by stop-start policymaking.

#### **Greenhouse Gas Emissions**

The Australian Energy Market Agreement (2006)(AEMA), which states that one of the objectives of that agreement is to

"address greenhouse emissions from the energy sector, in light of the concerns about climate change and the need for a stable long-term framework for investment in energy supplies."

Greenhouse emissions from the electricity sector are now reducing in spite of, rather than because of, the operation of the NEM. For instance, the \$45 billion in network investment approved for 2010-2015 is largely to meet growing peak demand and to entrench the existing fossil-fuel generation network, rather than to encourage energy efficiency, respond to the growth in small scale renewables or ready the network for substantially more large scale renewable energy generation.

If the NEM is to become a facilitator of a transition to a cleaner economy, it must be reformed to promote energy efficiency, demand-side participation and distributed generation, in line with the AEMA.

## Reporting

There is currently no mechanism for the operation of the NEM to be reported against the criteria set out in the NEO. In line with the recommendations set out in the NEM Report Card (2011)<sup>2</sup> and in the interests of transparency and efficiency, TEC calls for the following:

- 1. That the SCER requires annual public performance reporting of the NEM against the criteria of the NEO.
- 2. That public reporting on the performance of the NEM should be extended beyond the narrow NEO criteria, particularly in relation to customer bills, customer energy efficiency, demand management, protection of vulnerable customers and customer satisfaction.
- 3. That the NEO be amended to incorporate social and environmental criteria for the long term interest of consumers in addition to the existing technical and price criteria.

TEC staff would be happy to present or answer questions at any public hearing related to this inquiry.

Yours sincerely,

Jeff Angel

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<sup>&</sup>lt;sup>2</sup> Prepared for TEC by the Institute for Sustainable Futures at the University of Technology, Sydney.