



## October, edition 33.

In recent editions of *On The Wire*, we have updated readers about Consumer Action's [Do Not Knock campaign](#). Door knocking is a key marketing channel in the retail energy industry.

On 28 September, the Australian Competition & Consumer Commission was successful in obtaining penalties of \$1 million through Federal Court action against an energy retailer and its marketing companies following breaches of the unsolicited consumer agreement provisions of the Australian Consumer Law. Importantly, the court declared that a salesperson that ignores a visible Do Not Knock sticker is breaching the provision of the Australian Consumer Law that requires salespeople to leave when requested to do so.

The finding follows the publication of new research by the Australian Competition & Consumer Commission (ACCC) in August this year. The report highlights how the industry's reliance on commission-based remuneration schemes drives aggressive sales behaviour and encourages sales agents to adopt tactics that are not fully compliant with the Australian Consumer Law in order to secure more sales.

Contrary to the views of many in the energy industry, Consumer Action believes that door-to-door sales can be anti-competitive. Effective competition is created when a customer looks at a range of products, considers their features and costs and makes an informed decision about what is right for them. This happens when you have the capacity to compare a number of products from a number of providers. When you're visited by a door to door salesperson you are only being shown one company's product. Consumers have limited ability at the doorstep when they are visited by a door to door salesperson to consider other products or their electricity usage patterns and are highly unlikely to know what they're paying under their current plan. Given this, door to door selling promotes ill-considered, rash decisions and can actually leave a household paying more for electricity.

We welcome feedback on the information provided in *On the Wire*. Further, we encourage you to forward the newsletter throughout your networks.

Production of *On the Wire* is funded by the [Consumer Advocacy Panel](#). To subscribe to *On the Wire*, please email [info@consumeraction.org.au](mailto:info@consumeraction.org.au) with the words "Subscribe to On the Wire" in the subject line. The next edition of *On the Wire* is scheduled for release at the end of September 2012.

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## **1. Regulatory developments**

### **1.1 Senate Select Committee on Electricity Prices**

On 23 August 2012, the Senate established a Senate Select Committee on Electricity Prices. The terms of reference for the inquiry are broad, and include the following:

- identification of the key causes of electricity price increases;
- legislative and regulatory drivers for network price increases;
- options to reduce peak demand;
- investigation of mechanisms that could assist reduction in energy costs, including:
  - low cost energy efficiency opportunities,
  - opportunities for improved customer advocacy and representation,
  - the role of technologies to provide consumers with greater information to assist in managing their energy use, and
  - the adequacy of current consumer protection measures, including the National Energy Customer Framework.

Submissions were due by 14 September 2012, and over [80 submissions](#) have been received. [Public hearings have](#) also been held in Sydney, Melbourne, Brisbane, Perth and Canberra.

The committee will report by 1 November 2012, and we will report on the committee's findings from the inquiry in the next edition of *On the Wire*.

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### **1.2 Federal Government – recent reports**

The Department of Resources Energy and Tourism (DRET) have released some useful documents relating to energy.

[Energy in Australia 2012](#) is a joint publication with the Bureau of Resources and Energy Economics. It provides a detailed overview of energy in Australia from production to consumption, and serves as a useful resource to inform industry, government and the community.

DRET has also published an [Electricity Prices Fact Sheet](#) which outlines the cost components of electricity prices, recent price rises and the contributing factors. The fact sheet also highlights ongoing reform in energy markets and the measures in place to address energy price pressures facing consumers.

A [scoping study into an energy information hub](#) has also been released in September 2012. The aim of an energy information hub is to improve the disclosure of energy information that will provide consumers with easier access to their energy information currently held by retailers and distributors. The scoping study was an Australian Government commitment arising from the *Clean Energy Future* package.

The study, undertaken by Sapere Research Group, identified significant shortcomings associated with current efforts by the energy industry to release consumer information web-portals. To remedy these shortcomings, the study recommended the establishment of a hub (called CEdata) which addresses:

- timeliness of information
- information equality—incumbent and alternative energy suppliers would have equal access to consumption information, subject to customer authorisation; and
- more competitive retail prices

While a full cost benefit analysis was outside the scope of this project, the research identified economic efficiency gains of around \$115 million per annum from establishment of CEdata.

DRET will consider and advise the Australian Government of appropriate actions relating to an energy information hub as part of its broader work on demand side participation in energy markets.

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### **1.3 Review of Limited Merits Review**

In our last edition, we reported on the final Stage One report of the [Review of Limited Merits Review](#), undertaken on behalf of the Standing Council on Energy and Resources (SCER). That report found that the performance of the limited merits review regime has not been satisfactory, and particularly that the the long term interests of consumers have typically not been explicitly considered when review decisions have been made.

Stage Two of the review will present recommendations to SCER on whether amendments are required to better deliver against the objective of the review mechanism. The Expert Panel undertaking the review has now released an [Interim Stage Two Report](#). In this report, the Panel has identified desirable criteria for a revised review regime, including that the regime should:

- be capable of addressing issues on a sufficiently wide basis, up to and including the overall price/revenue determinations themselves,;
- explicitly take account of and promote the law's objective;
- promote consumer and user access to the relevant decision making processes; and
- not be more protracted or demanding of resources than is necessary to achieve the fundamental purposes of merits review.

The Panel also identifies some issues in the wider context of the review, including the application of the framework for economic regulation of networks to private and publicly-held network businesses as well as the interaction between energy and climate policy.

The Panel has also released a [legal opinion](#) from the Acting Solicitor-General about the ability of the regulator to broaden the scope of issues being considered in an appeal hearing. The advice

is that the existing law does not permit the scope of review to be broadened. While aspects of a price control determination may be raised by the regulator, the Tribunal may only consider such aspects for the purposes of conducting the review already before it, rather than for the purpose of broadening the scope of the review. The Expert Panel had initially opined that there was nothing to prevent the regulator from raising additional matters in a review hearing, so this may impact the Expert Panel's final recommendations.

The review was due to be completed by 30 September. More information about the review can be found [here](#).

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#### **1.4 Australian Energy Regulator (AER)**

The AER is undertaking the following price determinations:

- Victorian Gas Distribution 2013-2017: The AER has issued draft determinations relating to the proposals of Envestra, Multinet and SPAusNet. In each, the AER has not accepted the original proposals of the business, and has reduced the businesses costs by between 21 and 33 per cent. Submissions on the draft decision are due in early January.
- Victorian Gas Transmission 2013-2017: The AER has issued a draft determination in relation to APA GasNet's access arrangements. The AER has not accepted the proposed revenue needs for the period, and is proposing a 39 per cent reduction compared to APA GasNet's initial proposal.
- NSW Electricity Distribution 2014-2018: The AER is required to prepare and publish a framework and approach paper by 30 November. The framework and approach paper will outline the likely classification of the NSW Distribution Network Service Providers' (NSW DSPN) services, the form of control to apply to those services and the likely application of the AER's incentive schemes and guidelines to the NSW DNSPs.

The AER has also called for energy market reforms to focus more closely on the long-term interests of consumers. In his appearance before the Senate Select Committee on Electricity Prices (see above), the AER chair Andrew Reeves said, "[e]nergy market reform to date has focused on the wholesale market and establishment of a national grid network. Reform now needs to bring end customers into the market, to allow customers greater participation and control over the energy services they want". The AER also called for a well resourced, national independent consumer advocacy body to be established that would ensure that consumers' views can be represented effectively and that the impacts upon consumers are properly considered. For more information, see [here](#).

For more information from the AER, visit [www.aer.gov.au](http://www.aer.gov.au).

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#### **1.5 Australian Energy Market Commission (AEMC)**

##### **Reviews**

##### **Power of Choice—Stage 3 Demand Side Participation Review**

The AEMC Power of Choice review proposes reforms to the National Electricity Market to provide consumers with more control in the way they use electricity and manage their bills, by allowing

greater demand side participation. Demand side participation refers to actions available to consumers to reduce or manage their electricity use. Effective demand side participation (DSP), the AEMC argues, can help reduce pressure on prices in consumer bills in the short-term. It can also reduce the overall cost of electricity supply in the long term by delaying investment in generation and networks.

The Draft Report of the review was released on 6 September. In it, the AEMC recommended:

- allowing large consumers or third parties, acting on behalf of consumers, to participate in the wholesale electricity market, and to receive the spot price for changing their demand;
- for different electricity tariffs to be imposed at different times of day and in different locations to reward consumers for changing their behavior while providing safeguards for vulnerable customers who may be affected by time varying prices;
- improved access to consumption data to inform consumer choices;
- that the introduction of time varying tariffs should be supported by consumer education to increase understanding of the potential benefits and vulnerable consumer protections;
- the encouragement of investment in metering technology;
- improved incentives for network service providers to consider DSP options rather than additional network investment in poles and wires where efficient to do so; and
- enabling consumers to sell their distributed generation (e.g. solar, embedded generation, battery storage) to parties other than their retail electricity supplier.

Submissions on the draft report are being sought until 11 October 2012 and the review's final reform proposals will be given to the Standing Council on Energy & Resources on 16 November 2012. For more information, visit [here](#).

### **Energy Market Arrangements for Electric and Natural Gas Vehicles**

On 29 August 2012, the AEMC published its draft advice on its review of the energy market arrangements for electric (EVs) and natural gas vehicles (NGVs). This review is aligned with the AEMC's power of choice review.

The AEMC found that while the energy market arrangements are generally robust enough to cater for the efficient uptake of EVs, it is important to put measures in place now to facilitate efficient investment for both consumers and service providers in the long term.

In relation to EVs, the AEMC recommends that:

- in general, no specific energy market arrangements should apply to EVs. An EV is a potentially large load and should be treated as another form of demand side participation (DSP);
- to facilitate efficient EV charging behaviour, appropriate pricing signals (particularly network pricing signals) are necessary that reflect the cost of supplying electricity;
- to facilitate consumer choice, new metering arrangements that enable a consumer to separate their EV consumption from their household consumption should be implemented; and
- there are appropriate consumer protections put in place for residential consumers.

Submissions on this draft advice are due by 1 October 2012. More information can be found [here](#).

## **Rule change proposals**

### **Economic Regulation of Networks**

On 23 August 2012, the AEMC published its draft determination and draft rules on the economic regulation of network service providers. The draft rules amend the National Electricity Rules (NER), which are applied in the eastern states by the AER. The draft rules also amend the National Gas Rules (NGR), which are applied by the AER in the eastern states, and the Economic Regulation Authority (ERA) in Western Australia.

The AEMC draft determination proposes changes to the rules in four key areas:

#### 1. Rate of return (under the NER and NGR)

The AEMC is proposing a new rate of return framework that is common to electricity distribution, electricity transmission and gas. Under the framework, the regulator is required to make the best possible estimate of the rate of return at the time a regulatory determination is made, by taking into account market circumstances, estimation methods, financial models and other relevant information.

#### 2. Capital expenditure incentives (under the NER)

The draft determination provides for new tools under the NER, such as capital expenditure sharing schemes and efficiency reviews, so the regulator can incentivise network service providers to invest capital efficiently. The regulator can apply the tools as it considers appropriate to each network business, having regard to an overall objective that only capital expenditure that is efficient should form part of the regulated asset base.

#### 3. Capital expenditure and operating expenditure allowances (under the NER)

The draft determination improves the clarity and removes ambiguities regarding the powers of the AER to interrogate, review and amend capital and operating expenditure proposals submitted by network service providers. Under the proposed changes, the AER is also required to publish annual benchmarking reports, which will assess the relative efficiencies of network businesses.

#### 4. Regulatory process (under the NER)

The regulatory determination process would be lengthened by six months among other changes in order to enhance stakeholder involvement particularly by community representatives.

Submissions are due to the AEMC by 4 October. Visit [here](#) for more information about this process.

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## **2. Consumer advocacy**

*On the Wire* welcomes contributions from consumer and community organisations. If you would like to submit an article for the next edition of *On the Wire*, please contact us at [info@consumeraction.org.au](mailto:info@consumeraction.org.au) with "On the Wire" in the subject line.

The following articles are produced by organisations other than the Consumer Action Law Centre and do not necessarily represent the views of Consumer Action.

## 2.1 Toward a National Energy Advocacy Body

In April 2012, a workshop was held to explore models for national energy advocacy, and participants from a range of consumer and community organisations agreed to the development of a new national energy advocacy organisation. The workshop followed the publication of *Making Energy Markets Work*, a research report examining models of energy consumer advocacy for Australia.

With funding support from the Consumer Advocacy Panel, a working group has now been created to prepare a proposal for the establishment of the new national body. The working group is led by Fiona McLeod (ex-Energy & Water Ombudsman Victoria) and is made up of representatives of consumer organisations from across Australia. The body, proposed to be called Energy Consumers Australia, will work with and build on the work of existing consumer advocacy on energy around Australia. This model has the capacity to leverage existing resources, skill, and knowledge to build an effective national voice, and also recognises the continuing need for funding to jurisdictional projects, as well as the continued function of the National Consumer Roundtable on Energy for information sharing and capacity building.

A number of regulators and other bodies have recently voiced support for better resourcing of national energy consumer advocacy, including the Australian Competition & Consumer Commission, the Australian Energy Regulator and the Australian Energy Market Commission. The recently established Senate Select Committee on Electricity Prices is also considering consumer advocacy as part of its terms of reference.

The working group's proposal, which will include a draft constitution, business plan and implementation plan for the new organisation, will be presented to the next meeting of the Council of Australian Governments (CoAG) in December. Those that would like further information about this process are invited to contact Fiona McLeod by email at [fiona.m.mcleod@me.com](mailto:fiona.m.mcleod@me.com).

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## 2.2 CHOICE's Take the Power Back campaign, *Katrina Lee, CHOICE*

CHOICE has launched Take the Power Back, an online petition empowering Australian consumers to email their state and federal energy minister asking them to put political divisions aside and work to fix Australia's energy system ahead of the final Council of Australian Governments meeting for 2012.

The asks include:

- Making sure that networks are as cost-effective as possible by strengthening the Australian Energy Regulator and changing the incentives for networks;
- Changing the energy market to make reducing energy bills our first priority, with a major focus on saving energy and reducing peak demand;
- Giving consumers a stronger voice in the way that the energy market is designed and operated.

Sign and share the petition at [choice.com.au/takethepowerback](http://choice.com.au/takethepowerback)

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## 2.3 Avoiding the Peak—The Value of Grid Connected Storage, *Damien Moyse, Alternative Technologies Association*

The Alternative Technology Association (ATA) recently conducted research into the value proposition of stand-alone power systems (SAPS) as an alternative to network augmentation in remote areas of the electricity grid.

In discussing the findings with our members, other consumers and the broader energy industry, the main questions that people asked us were:

- How can I utilise energy storage to meet peak demand?
- When will it be viable to get rid of my electricity supplier and totally disconnect from the grid?

For homes with typical levels of energy consumption (i.e. in the order of 10 – 30 kWh per day), the ATA SAPS research demonstrated that for the purposes of complete disconnection, the capital and levelled cost of a SAPS is, in the short to medium term, likely to remain prohibitive for the majority of consumers wanting to completely isolate themselves from the grid.

ATA has now modelled the value proposition to a customer of using grid-connected battery storage, charged from the grid during off-peak times for use during peak events.

The ATA has considered a scenario where a fixed, constant load during the peak period was supplied by batteries charged during the off-peak period.

The constant load selected was 2.0kW and the duration was 6 hours. 260 peak periods were also selected for the initial scenario, which reflect all weekday afternoon peak periods for one calendar year (and when peak retail rates are likely to apply). An analysis period of 15 years was used, to reflect the life expectancy of well maintained batteries that are not excessively discharged.

**Table 1** below outlines the other fixed parameters selected for the initial scenario:

Parameter	Value	Units
Battery bank – Capacity	15.58	kWh
Battery bank – Cost	\$250	\$/kWh
Battery bank – Asset life	15	years
Inverter – Capacity	3.0	kW
Inverter – Cost	\$900	\$/kW
Inverter – Asset life	15	years
Balance of System Cost <sup>1</sup>	\$1,000	\$/system
Battery Depth of Discharge	50%	lead acid
Whole of system efficiency <sup>2</sup>	77%	
Discount Rate	5%	
System Voltage	12	volts

ATA chose lead acid batteries for the modelling exercise. In theory, with lithium-ion phosphate batteries being around twice as expensive as lead acid, but with the ability to be cycled twice as deeply (i.e. 100%), the resultant cost of energy provided by both battery types would be broadly similar, for the purposes of the modelling.

**Table 2** below lists the capital costs for the battery system based on the above parameters:

<sup>1</sup> Includes: metering, smarts, switching gear and installation.

<sup>2</sup> 77% = Charger (95%), Battery Bank (85%), Inverter (95%).

<b>System Component</b>	<b>Capital Cost</b>
Capital Cost of Battery Bank	\$7,792
Capital Cost of Inverter	\$2,700
Balance of System Cost	\$1,000
<b>Total Capital Cost</b>	<b>\$11,492</b>

ATA then set about researching current time-of-use (ToU) tariffs that are available, in order to understand the costs of charging batteries during off peak times, and the value of the benefit of using them during peak times.

A quick analysis of price comparator websites suggested that NSW has the highest peak electricity tariffs in Australia—with some peak rates rising as high as 58.85 cents per kWh (after GST) over a 6-hour period from 2pm to 8pm. This tariff value is not surprising given the level of network investment currently happening in NSW.

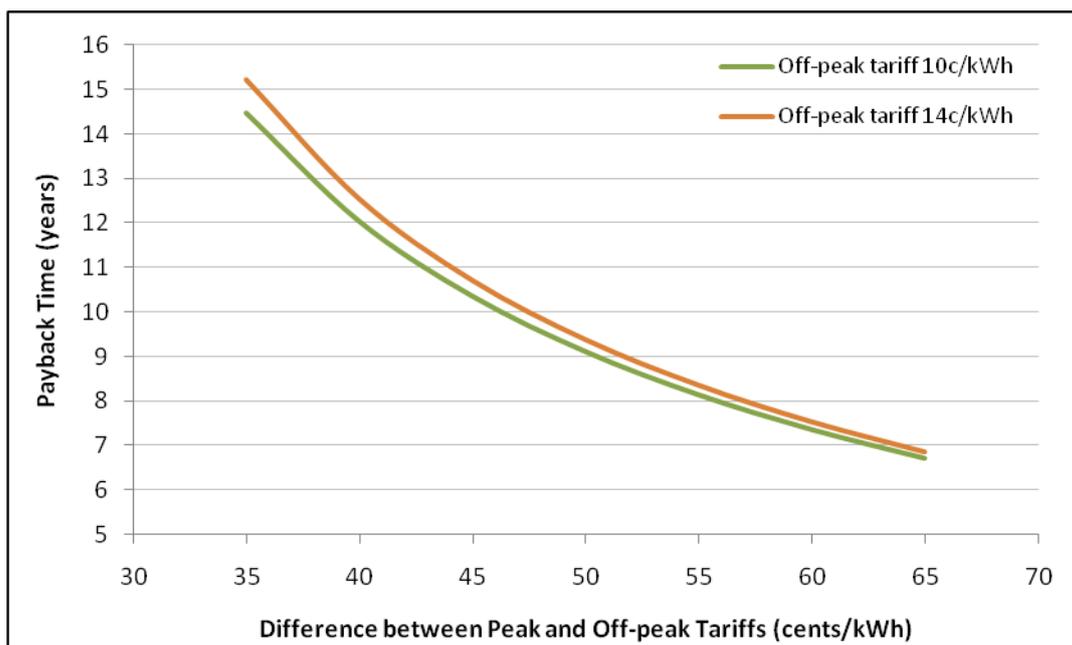
So using the NSW tariffs as a guide, and including forecast increases in electricity prices for NSW, the ATA calculated the necessary retail tariff rates to achieve a positive net present value within a 15 year analysis period. This included consideration of both the off-peak rate (paid to charge the batteries); and the peak rate (to be avoided by drawing on the battery bank).

On the basis of the fixed parameters above, we found that when the off-peak tariff is in the range of 10 to 14 cents per kWh (consistent with the current offerings in NSW), the peak tariff must be at least 36 cents per kWh higher than the off-peak tariff (i.e. in the order of 50 cents per kWh) for the investment to break even over 15 years. This analysis assumes that the peak tariff is constant over the 6-hour period, as is the case with the NSW tariffs mentioned above.

The results of how long it takes to payback the investment based on different peak/off-peak tariffs is shown in **Table 3** and **Figure 1** below:

<b>Peak to Off-peak Tariff Differential</b>	<b>Battery Investment Payback Period<sup>3</sup></b>
Peak tariff is 36 c/kWh higher than off-peak	15 years
Peak tariff is 48 c/kWh higher than off-peak	10 years
Peak tariff is 65 c/kWh higher than off-peak	7 years

<sup>3</sup> All assume a 6 hour peak. As peak tariffs get higher and the differential greater, peak durations are likely to get shorter which may affect payback times. As an example, based on a differential of 50 cents and only a 2 hour peak duration, with all other parameters constant, the payback rises to 12 years.



As shown above, to obtain a shorter payback to the customer of under 7 years, the tariff structure would have to include a peak to off-peak tariff difference of at least 65 cents per kWh. The difference between the two scenarios in **Figure 1** reflects the assumption that peak tariff rates will increase slightly more than off-peak tariff rates over the analysis period.

It should be noted that for all but the most expensive ToU tariffs currently available in NSW (and likely in the rest of the country), the difference between the peak and off-peak tariffs is not currently high enough to warrant this type of investment.

In more remote locations at the end of long powerlines, the business case for grid-connected battery inverter systems may not rely purely on the tariff rates, but also on the benefit of the avoided cost of an upgraded connection for a customer who is looking to increase their electrical capacity.

As the market for ToU evolves, it is likely that tariffs with high enough differentials between the peak and off-peak will be seasonal (i.e. may only be high enough in summer) and will likely have a shorter peak duration (probably 2 or 4 hours). Consumers will need to be aware of this in considering different tariff options.

And how could distributed generation such as solar be considered in the above scenario?

The off-peak rate for charging the battery bank can be thought of as the required levelled cost that electricity from a solar PV system must reach for a grid connected solar-battery system to achieve the same NPV or return on investment.

Given the NSW context above, a 1.5 kW system installed in Sydney currently having an installed cost of \$2.70 per watt before STCs, has a levelled cost of energy of 13.7 cents per kWh, after STC incentive and over the life of the system.

But with solar being potentially able to contribute directly to consumption during peak periods and the options around storing more solar energy with a larger battery bank – this proposition needs further modelling.

So stay tuned for our next article where we will model the inclusion of solar with a grid-connected battery system!

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