



**June/July 2008, edition 17.**

Consumer Action supports the [Garnaut Review's](#) recommendation for the establishment of an Emissions Trading Scheme (**ETS**) as a market mechanism with the core policy objective being the reduction of harmful greenhouse gas emissions.

It is widely accepted that Australian consumers will pay for the cost of any ETS scheme, primarily through higher electricity bills (but also indirectly through other goods and services). However, it is essential that care be taken to ensure consumers, particularly low-income and vulnerable consumers, are not unfairly bearing the burden of the costs.

This is of particular significance with the current increasing cost pressures on the supply of electricity in Australia, the result of increased demand and the implications of drought. Estimating a carbon cost of \$30/t, the typical impact on a household will average between \$210 and \$495 per annum for electricity, gas and transport fuel costs (this changes depending upon fuel mix available where consumers live).<sup>1</sup> An imputed carbon cost on other goods and services would be in addition to this (and may in fact double the cost).

While we acknowledge that the intention of an ETS is to deliver price signals, including to consumers, relating to the cost of greenhouse gas emissions, there needs to be complementary policies and protections in place that help consumers manage cost increases and assist them in changing their behaviours. Further to compensatory measures delivered through the revenue accumulated from the trading scheme itself, we recommend that the implementation of an ETS:

- is complemented by a comprehensive consumer protection framework that ensures consumers maintain access to essential services;
- allows consumers, particularly low income and vulnerable consumers, to engage in actions that will reduce their greenhouse gas emissions;
- promotes increased energy efficiency and renewable energy production outcomes; and
- is environmentally robust, so that it will deliver real reductions in greenhouse gas emissions.

Further, we support programs that are aimed at encouraging consumers to consume less, specifically goods and services that result in carbon emissions.

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 [National Electricity Consumers Advocacy Panel](#). To subscribe to *On the Wire*, please email [info@consumeraction.org.au](mailto:info@consumeraction.org.au) with "On the Wire" in the subject line. The next edition of *On the Wire* is scheduled for release in September 2008.

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<sup>1</sup> ACF, ACROSS and CHOICE, *Energy & Equity: Preparing households for climate change: efficiency, equity, immediacy*, April 2008, p 10.

## **CONTENTS**

### **1. Regulatory developments**

#### **1.1 Ministerial Council on Energy update**

#### **1.2 Emissions Trading Scheme**

#### **1.3 Australian Energy Market Commission update**

#### **1.4 Australian Energy Regulator update**

### **2. Consumer advocacy and other information**

#### **2.1 St Vincent de Paul is concerned with increasing electricity prices, Gavin Dufty**

#### **2.2 Advoacy Pays Off, Tenzin Bathgate**

#### **2.3 Emissions trading and Australian consumers, Gerard Brody**

#### **2.4 Review of Effectiveness of Retail Energy Competition in SA, Mark Henley**

### **1. Regulatory developments**

#### **1.1 Ministerial Council on Energy update**

##### **Decisions made MCE 15<sup>th</sup> meeting, 13 June 2008**

Australian, State and Territory Government Energy Ministers met on 13 June 2008 as the [Ministerial Council on Energy \(MCE\)](#). The key decisions/outcomes of the meeting include:

- Minister commitment to the rollout of smart meters in the National Electricity Market by distributors with Victoria and New South Wales to proceed and meters to be deployed prior to 2017. Other states and territories to continue to undertake pilots and business cases prior to a review of deployment timelines in 2012;
- Agreement that the Emissions Trading Scheme must be designed to protect the security of Australia's national energy supply;
- Agreement to conduct a review of energy market frameworks based upon the introduction of the emissions trading scheme and the renewable energy target;
- The appointment of the Australian Energy Market Operator (AEMO) chairman and the Selection Panel for the non-executive Board;
- Announcement that membership of the AEMO will be shared between government (60%) and industry (40%);
- Commitment to establish an Energy Technical and Safety Leaders Group;
- The announcement of the completion of the Energy Community Service obligations National Framework.

A copy of the communique from the MCE's 15<sup>th</sup> meeting can be found [here](#).

#### **Smart Meters update**

As background to the Ministers' decision on smart meters, in April 2007 the Council of Australian Governments (**COAG**) committed to the national mandated rollout of smarter meters, where the benefits outweigh the costs, to allow the introduction of time of day pricing and to allow users to better manage their demand for peak power.

The MCE announced a two-phase cost-benefit analysis, to be managed by the MCE Standing Committee Officials (**SCO**), with Phase 1's objective to define a national smart meter minimum functionality and Phase 2's objectives to assess the case for a roll-out of smart meters across jurisdictions.

The findings of Phase 1 resulted in the MCE agreeing that a [national minimum functionality](#) for smart meters is necessary to maximise their benefits and an initial list of functions was approved.

The findings of the Phase 2 Cost Benefit Analysis were based upon an aggregation of the benefits and costs across all jurisdictions and work streams, resulting in an overall positive business case for the rollout. The analysis considered costs of smart meter infrastructure, avoided meter costs, business efficiencies and demand response.

The findings of the [cost benefit analysis](#) suggest there is an overall case of positive net benefits of \$179m - \$3.9bn nationally for a distributor led rollout, whilst other scenarios have a less positive case. Primarily the bulk of costs associated with a rollout are in the meters themselves and in the installation, with the benefits accrued through business efficiencies (predominantly avoided meter costs).

Consumer groups continue to be concerned about the cost of smart meters, and the impact of new pricing structures. If the rollout is to proceed, it must occur with strong consumer protections. Specifically:

- Hardship policies and other consumer protection and assistance programs (to ensure existing protections are not eroded);
- New mechanisms for identifying households facing financial stress (prior to utilising remote disconnection functionalities);
- Education programs introducing smart meters and innovative tariff structures;
- The ability for consumers to shift between tariff products easily to ensure they are not financially worse off;
- The processes to ensure new tariff structures are passed from network businesses to retailers then to the consumer; and
- Sufficient notice of critical peak events to provide opportunities for a household to respond to the pricing signals of critical peak pricing.

Ministers at the latest MCE meeting on 13 June 2008 are committed to a national framework for smart meters allocating responsibility for the rollout to distributors. The Ministers noted the uncertainties regarding the costs and benefits of smart meters in some jurisdictions and have committed to rolling out smart meters in Victoria and New South Wales by 2017, with other states conducting pilots and business cases with a further review of deployment scheduled for 2012.

For more information on the Smart Meter process, please click [here](#).

### **National Gas Law and Rules**

The *National Gas (South Australia) Act 2008* implementing the National Gas Law has been passed by the South Australian parliament. It has also been applied in all States and Territories other than Western Australia (due to follow by October 2008). The National Gas Law reforms third party access to natural gas pipelines and establishes a gas market Bulletin Board. It replaces the *Gas Pipelines Access (South Australia) Act 1997* and brings gas access regulation under the jurisdiction of the Australian Energy Market Commission as rule-maker and the Australian Energy Regulator as the economic regulator and enforcement body. The legislation has been formally proclaimed to commence on 1 July 2008.

Commencing on 1 July 2008 with the National Gas Law, the South Australian Minister has made the initial National Gas Rules 2008 (the National Gas Rules) and the South Australian Governor has also made the associated Regulations.

The objective of the National Gas Law is very similar to the National Electricity Law, 'to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas'. Given that energy is an essential public service, consumer advocates continue to be concerned that this objective is too narrow. Focusing on the concept of economic efficiency as a process, it fails to ensure the regulator focuses on the outcomes of the market and whether those outcomes are effective, particularly from wider social and environmental perspectives.

[-back to top-](#)

## 1.2 Emissions Trading Scheme

In April 2007 the Australian state, territory and Commonwealth governments commissioned the [Garnaut Climate Change Review](#) to examine the impacts, challenges and opportunities of climate change for Australia.

From the period of January to April 2008 Garnaut released the following issues papers for comment:

- [Climate Change: Land use – Agriculture and forestry](#)
- [Financial Services for Managing Risk: Climate Change and Carbon Trading](#)
- [Climate Change: What is the Science telling use? Is there a need to develop new emissions scenarios?](#)
- [Research and Development: Low emissions energy technologies](#)
- [Transport, Planning and the Built environment.](#)

An Emissions Trading Scheme (**ETS**) [discussion paper](#) was also released with the goal of raising and exploring different design features of an ETS, and to seek input on the model for a proposed Australian ETS.

Over 4000 [submissions](#) were received and included submissions from individuals, public interest groups (such as bicycle groups, consumer or social service organisations), industry associations (eg Housing Industry Association, Australian Coal Association) and individual organisations ranging from Caltex and BP, to Westpac and KPMG.

While supporting an ETS, Consumer Action acknowledges that the intention of an ETS is to deliver price signals, including to consumers, relating to the cost of greenhouse gas emissions. As such, there needs to be complementary policies and protections in place that help consumers manage cost increases and assist them in changing their behaviours. Further to compensatory measures delivered through the revenue accumulated from the trading scheme itself, we recommend that the implementation of an ETS:

- is complemented by a comprehensive consumer protection framework that ensures consumers maintain access to essential services;
- allows consumers, particularly low income and vulnerable consumers, to engage in actions that will reduce their greenhouse gas emissions;
- promotes increased energy efficiency and renewable energy production outcomes; and

- is environmentally robust, so that it will deliver real reductions in greenhouse gas emissions.

A Draft Report was delivered to the Australian Government today, 4 July 2008 and the Final Report is due by 30 September 2008.

Simultaneous to the Garnaut process, Roger Wilkins has been commissioned to conduct a [strategic review of climate change programs](#), to ensure that existing climate change programs are efficient, effective and complementary to the proposed ETS.

While Consumer Action supports the development of an ETS, we do not support a framework that places an ETS at the peak of a hierarchy of climate change programs. Subsequently, in our submission, we reinforced that it is therefore essential that programs identified as 'complementary' to the ETS:

- Are actively supported to enable them to achieve emissions reductions and are within the reach of consumers;
- Are cost effective;
- Achieve the environmental objectives of reducing greenhouse gas emissions;
- Consider that price signals will not work for all consumers, e.g. low income consumers. Other mechanisms are needed to ensure low-income consumers are able to participate in reducing greenhouse gas emissions but also so they're not unfairly bearing the cost of an ETS;
- Protect consumers from unfairly paying for measures that they will pay for through an ETS. Specifically we are concerned about businesses double dipping (e.g, consumers who pay a premium for green power will also be paying a carbon price for all electricity consumption); and
- Acknowledge the many other policy reasons or benefits for retention:
  - GreenPower provides consumer protection/confidence to consumers when they deal with marketing of renewable energy; and
  - Support/rebates for Solar PV or other embedded generation can have benefits for energy networks that are in the long term interest of the market and consumers.

A copy of Consumer Action's submission to the Wilkins Review can be found [here](#).

[-back to top-](#)

### **1.3 Australian Energy Market Commission (AEMC) update**

#### **South Australia Review of Effective competition**

Following the review of effective competition in Victorian gas and electricity markets and the Australian Energy Market Commission (**AEMC**) recommendation to remove price regulation in Victoria in February 2008, the AEMC has initiated its review of effective competition in South Australia's gas and electricity markets. The MCE formally requested the AEMC to undertake the review and an [issues paper](#) was released inviting submissions by the 11th of April 2008. Submissions included:

- [Council On The Ageing \(SA\)](#)
- [Energy Industry Ombudsman Of South Australia](#)
- [South Australian Farmers Federation](#)
- [Uniting Care Wesley](#)

**Stop Press.** Just as "On the Wire" was about to be distributed the AEMC released the following statement: "On 4 July 2008, the AEMC published the [First Draft Report](#) of its Review of the Effectiveness of Competition in the Electricity and Gas Retail Markets in South Australia. The Draft Report finds that competition for both electricity and natural gas in South Australia is effective." They then called for responses to this First Draft Report.

Additional information on the AEMC Review of effectiveness of competition in South Australia can be found [here](#), or for a consumer perspective, in the article attached below by Mark Henley, Wesley Uniting Care, Adelaide.

### **AEMC Review of Demand-Side Participation**

The AEMC has released an [Issues Paper](#) for public consultation on Stage 2 of the Review of demand-side participation (**DSP**) in the NEM to identify issues in the Rules that may raise impediments or disincentives to efficient demand-side participation in the NEM.

With the goal of identifying simple, low cost and high impact issues to act on first, it acknowledges that complex, high cost options may provide benefits in excess of the costs. The Issues Paper has separated issues for public comment into five topic areas:

1. economic regulation of networks;
2. network planning;
3. network access and connection arrangements;
4. wholesale markets and financial contracting; and
5. reliability.

Submissions closed on the 20<sup>th</sup> June 2008. Submissions included:

- [Alternative Technology Association](#)
- [Consumer Action Law Centre](#)
- [Consumer Utilities Advocacy Centre](#)
- [Total Environment Centre](#)

For more information on the AEMC Demand Side Participation review, please click [here](#).

[-back to top-](#)

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

The AER has recently released its [Statement of Approach for Compliance and Enforcement](#) reinforcing its role monitoring compliance, investigations and enforcement of the market are set out in section 15 of the National Electricity Law (**NEL**). In summary:

#### *Monitoring*

The first function conferred on the AER under section 15 of the NEL is monitoring compliance with the NEL and the National Electricity Rules (**NER**) by registered participants and other persons. By monitoring activity and behaviour in the market, the AER is able to assess compliance and identify breaches of the NEL and NER.

The AER's monitoring of the wholesale electricity market includes:

- maintaining a 'market snapshot' on the AER website, including up-to-date information on the wholesale electricity market
- weekly public reporting, including details of market outcomes for each week
- preparing public reports when the spot price exceeds \$5000/MWh.

### *Compliance*

The AER has released its compliance monitoring activities for the coming year and beyond. Those activities include:

- Targeted compliance reviews;
- Audits;
- Technical standards compliance monitoring programs; and
- Participant reporting.

The purpose of the AER's compliance monitoring regime is to identify any incidents of non-compliance with the NEL and NER. In some cases, a further investigation may be warranted to ascertain the existence, nature and extent of any breach. The AER undertakes special investigations of events to determine whether enforcement action is required.

### *Enforcement*

The AER has sole responsibility for initiating proceedings in relation to an alleged breach of the NEL, NER or relevant Regulations and is able to seek remedies in the state or territory supreme court of the relevant jurisdiction of the national electricity market (NEM) or the Federal Court. This is an important function, and it is incumbent on the AER to actively prosecute breaches of energy laws where they cause significant consumer detriment.

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

[-back to top-](#)

## **2. Consumer advocacy and other information**

### **2.1 St Vincent de Paul is concerned with increasing electricity prices – Gavin Dufty, Manager, Policy & Research**

St Vincent de Paul is concerned that electricity costs may rise by as much as 80% over the next 5 years. Those that are particularly vulnerable to this price increase include households that have dual fuel and those households where the occupants are at home during the day.

This price increase will occur as three factors interplay:

1. **Tariff reallocation:** Tariff reallocation will occur as part of the interval meters rollout. This will result in networks reallocating household tariffs from a flat tariff to a 'time of use' (TOU) tariff which will potentially raise the peak rate from 16.9 cents per Kwh to approx 23.2 cents per Kwh from 7.00 am – 11.00 pm, representing a 37% increase and rates of 8.6 Kwh at all other times will reduce by 45%.

As an example, placing dual fuel customers on a TOU tariff where the average price is similar to the current tariff would require these households to shift current electricity consumption into the off peak rate, to offset the higher peak rate charges. Such load shifting is extremely difficult / impossible for dual fuel households as their traditional energy load takes advantage of off peak pricing through electricity storage space and water heating.

2. **Carbon trading:** The financial impacts of carbon trading for Victorian electricity consumption at, for example, \$30 per tonne, will add another 3 cents per kWh, or at \$50 per tonne will add another 5 cents per kWh (for Victoria). The total rate per kWh, on top of the tariff reallocation, is now estimated to be between 26 -28 cents per kWh for peak rates and off peak rates will rise 11.6 cents to 13.6 cents per kWh.
3. **Smart Meters:** Finally, the cost of smart meters at \$70 per annum, will result in a cost of approximately another 1.5 cents – 2 cents a kWh for average bills of dual fuel households.

Based upon these calculations, St Vincent de Paul estimates that the total increase will result in peak prices between 27 -29 cents per kWh, in comparison to the current cost of 16.9 cents per kWh. This is approximately an 80% price increase in the peak rate and for off peak rates the prices of 13- 15 cents per kWh represent only a 15% discount from the current energy charge applied to these households.

As many households have little ability to shift significant consumption into off peak periods this will expose some households to potentially 80% increases in energy prices. In particular this will affect those with gas operated cookers and space and hot water heating and those stay-at-home households including the aged and families with young children.

For more information, contact Gavin Dufty at [gavind@svdp-vic.org.au](mailto:gavind@svdp-vic.org.au).

[-back to top-](#)

## **2.2 Advocacy pays off in Queensland Tenzin Bathgate, Centre for Credit and Consumer Law, Griffith University**

Queensland consumers finally have some advocacy weight behind them for the next three years. On the 30th May 2008 the Minister for Mines and Energy announced that \$450,000 over three years would be used to fund a consumer advocate service at QCOSS with a particular focus on those in financial hardship. Over the last three years volunteer commitment, largely from the Queensland Consumer's Association, and a National Consumers Electricity Advocacy Panel funded position in the Centre for Credit and Consumer Law, Griffith University has attempted to fill the huge energy advocacy gap in Queensland. For now Queensland small end-users and particularly those in financial hardship can be assured of having a strong consumer voice.

But, the funding provided by the Minister for Mines and Energy did not come out of the blue. It was the result of concerted lobbying over the last three years by various organisations. This included two submissions from the Queensland Consumers Association in 2006 and 2008 and one from the Centre for Credit and Consumer Law in 2007 seeking State Government funding for energy advocacy in Queensland. QCOSS also made a submission.

Having two energy advocates in Queensland will enable more engagement with NEM and State-based energy issues impacting on consumers. Three years is great but what then? Currently the Advocacy Panel funded position, as in other States, occurs on a year by year basis. This creates a level of uncertainty every year when funding is due to be renewed about whether funding will continue for energy advocacy in relation to the NEM. Long-term ongoing funding of energy advocacy from the consumer sector is absolutely vital in ensuring that the

market does actually benefit the long term interests of consumers and that the essential nature of the service is a primary part of consumer considerations.

One such consideration is the impact of price. Gas prices have increased exponentially for Queensland consumers since full deregulation of the market last year to the point where the Queensland Competition Authority has been asked by the Minister for Mines and Energy to conduct a review on gas prices and competition for small customers in reticulated natural gas and reticulated and bottled LPG. Electricity prices have also risen significantly. The following article written by consumer advocates in Queensland and published in the Courier Mail on Monday 2nd June after the most recent increase in electricity prices in Queensland highlights the need for getting electricity price calculations absolutely right to avoid what is increasingly becoming a price impact on consumers ultimately leading to issues of affordability.

[-back to top-](#)

### **2.3 Emissions trading and Australian consumers – Gerard Brody, Director – Policy & Campaigns, Consumer Action Law Centre (first published in *The Age* on 30 May 2008)**

As energy generators and other energy intensive industries scramble over each other to convince Climate Change Minister Penny Wong that they deserve compensation for the impact of the establishment of an emissions trading scheme (ETS), Australian consumers are asking – what would such compensation mean for us? If the European Union (EU) experience is anything to go by, it would mean a significant increase in the cost of electricity services without any reduction in carbon emissions.

In his discussion paper on an Australian ETS, Professor Garnaut suggested that permits to emit carbon should not be given away freely, but auctioned. Garnaut also suggested that any compensation provided to the energy sector should be limited to 'trade exposed energy-intensive industries' (TEEIIIs), such as aluminium and steel producers. The justification is that the price of goods and services of TEEIIIs are determined on international markets, these companies will have a limited ability to compete internationally due to the extra costs of paying for carbon emissions locally. From a consumer's perspective, very limited 'transitional' compensation for TEEIIIs might be justifiable, but compensation for energy generators or all large energy users would mean windfall profits for these sectors, while ordinary consumers would pay more for basic electricity services.

The purpose of an ETS in Australia is to limit greenhouse gas emissions by putting a price on carbon. This in turn fundamentally changes the cost-benefit equation for delivery of goods and services that involve carbon emissions. As it applies to the stationary energy sector, an ETS is primarily designed to change how those in control of fossil fuel energy production – the large energy generators – go about their business. For example, other generation alternatives, such as renewable generation or even more efficient coal generation, will become more attractive as the production of carbon-intensive energy becomes more expensive.

If generators receive compensation (through, for example, the issuing of free permits to emit greenhouse gases), the incentive to look at sustainable investments evaporates.

The impact of an ETS is not limited to the electricity generation sector. In the short to medium term, energy generators will pass on the cost of emissions to end-users. This is appropriate – consumers, too, have a role to play in paying for the cost of their emissions.

However, at the residential household level, a price signal alone is unlikely to encourage residential consumers to change their behaviour to become more energy efficient.

It is widely acknowledged that the price elasticity of demand for electricity is very low. After all, electricity is a commodity like no other. This is because electricity has no value in itself, but is valuable for the service it can provide, for example, lighting, heating, cooling or cooking. Many, if not most, of the household services that electricity enables are not discretionary. If a price premium is placed on the carbon emissions involved in the delivery of these services, households will just pay more to receive the same level of service.

While an increased price might provide some incentives for householders to use electricity more efficiently, their ability to do so is limited by a range of structural factors. Barriers to household energy efficiency include the efficiency standards of buildings and appliances, the split incentive that exists between landlords and tenants, and the inability of low-income households to pay more to be efficient. Perhaps the most significant barrier is the cultural change necessary to convince consumers of the need to consume far less. More complex solutions are required to overcome these problems. A mere price signal through an ETS will not, and cannot, be the silver bullet for delivering residential energy efficiency.

The Government has said that Garnaut's final suggestions about an optimal ETS will form just one 'input' into the final design of Australia's ETS. Chief executives of fossil fuel companies and their lobbyists have interpreted this as the door being left ajar to deliver the outcome they desire – a shoring up of their profits. These lobbyists have seen the profits made by their sector in the EU after the establishment of the ETS there, and they now want their share of the pie.

The EU electricity industry was successful in its pursuit of 'grandfathering' – where polluters were compensated through free allowances, instead of being made to pay for their carbon emissions. Not only did free emissions credits result in dollars being diverted away from investment in sustainable technologies, consumers were still forced to pay for ETS 'costs'. A European Commission study, as stated in Garnaut's discussion paper, found that generators largely 'priced in' the value of carbon permits into their pricing decisions, despite the free allocations. Free permit allocation has been estimated as delivering over £9 billion in windfall profits to energy generators, all at the expense of electricity consumers.

Senator Wong must not be fooled by the powerful industry lobbyists. She must not fall for the argument that energy generators and other energy intensive industries will shoulder the burden of climate change unfairly. To date, these sectors have enjoyed a massive public subsidy for emitting carbon without consequence. If this historical subsidy is not removed through the mandatory auctioning of carbon permits, consumers (who are, after all, the voters) will have no confidence that an ETS or the Government can play its part in limiting carbon emissions and ultimately protecting us from the dangers of climate change.

[-back to top-](#)

#### **2.4 Review of Effectiveness of Retail Energy Competition in SA – Mark Henley Manager Advocacy and Communication – UCW Adelaide**

The AEMC is conducting its second jurisdictional review of the effectiveness of retail energy competition during 2008, in South Australia. The first jurisdictional review being undertaken in Victoria during 2007, where the AEMC finding was that there is effective competition in

retail electricity and gas markets in Victoria and therefore that retail price regulation was no longer required; since a competitive market would act in the best interests of consumers, to keep prices constrained while meeting regulated quality standards.

Recent international reviews of effectiveness of competition in jurisdictional energy markets have generally found Victoria to be the most competitive market in the world, with South Australia normally coming in between third and fifth, Australia's second most competitive market.

Community sector and consumer group advocates have not been so convinced about the effectiveness of competition in energy markets and certainly not convinced that unfettered markets will give the best price outcomes for consumers. The introduction of full retail contestability (competition) into the South Australian electricity market resulted in an almost immediate increase of about 25% in the average electricity bill for households.

UnitingCare Wesley (UCW) Adelaide has worked closely with SACOSS to respond to the AEMC review, and with Advocacy Panel funding, engaged David Headberry to assist with developing a submission.

The UCW Adelaide submission to the AEMC stated that competition was not effective for SA energy markets, drawing three main conclusions:

1. lack of competition in the supply of electricity, generation, means effective retail competition is almost impossible
2. in practice, there are virtually no market offers made to households in the poorer outer suburbs of Adelaide or in regional South Australia
3. there is not effective competition in the gas market, since infrastructure is limited and only about half of SA households have access to gas supplies.

The submission also considered specific aspects of the South Australian energy market, in particular the very 'peaky' nature of demand in South Australia as exemplified by the March 2008 heatwave, the most consecutive days with maximum temperatures over 35° C, ever recorded for Australian capital city.

In the summer of 2008, the half hourly spot price in SA exceeded \$300/MWh on 74 occasions, exceeded \$1000/MWh on 57 occasions and exceeded \$9900/MWh on 41 occasions in the three month period. This indicates that taking any exposure to the spot price was extremely risky. What is just as concerning is that these high prices were endemic when demand was at or above 2500 MW, a relatively modest level!

In focusing on the wholesale market in South Australia, the following conclusions were presented to the AEMC:

"It is apparent that there is a structural problem in the SA region of the NEM which has caused a significant lack of competition in the supply of wholesale electricity.

1. There is barely sufficient indigenous firm generation in SA to match the peak demand in the region.
2. Taking the risk on interconnection and wind generation exposes retailers to the spot market
3. The spot market has shown extreme volatility in summer of 2008, directly related to the sale of Torrens Island Power Station (TIPS) to AGL

4. The dominant generator in SA has the market power to set the spot price every summer.
5. Retailers must have firm generation offers to avoid the risks inherent in relying on interconnection and wind generation, and must avoid being exposed to the spot market
6. In order to make offers, retailers must include in their portfolios of generation, an element of power supply from TIPS, which is owned by a competing retailer."

We also concluded that "the structure of the SA electricity market is expected to continue to deter new entrants both at the generation and retail level. Faced with a dominant generator and dominant retailer, with 40% and 70% of the total market respectively, potential new generator and retailer entrants will face increased market risk."

While in considering the gas market we concluded, "the wholesale gas supply market is even less competitive than the electricity market, as there is only one supply arrangement for independent retailers to source gas from – the Moomba-Adelaide pipeline. All capacity on the SEAGas pipeline is fully contracted to Origin Energy, International Power and AGL, and gas from the Otway Basin is lower cost than gas from Central Australia."

Once the AEMC has completed its review of the effectiveness of competition, in South Australia, which should be released in early July, the second stage of the process will be to consider policy implications, in particular the question of whether regulated price controls should be removed in South Australia. Here I suspect, the South Australia situation will differ from Victoria.

For more information, contact Mark Henely at [Mark.Henley@ucwesleyadelaide.org.au](mailto:Mark.Henley@ucwesleyadelaide.org.au).

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