

## Australian Energy Market Commission

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Senator Mathew Thistlethwaite  
Chair  
Select Committee on Electricity Prices  
Parliament House  
Canberra House  
Canberra ACT 2600

**By email:** [electricityprices.sen@aph.gov.au](mailto:electricityprices.sen@aph.gov.au)

Dear Senator Thistlethwaite

### **AEMC submission: Select Committee on Electricity Prices**

Thank you for your invitation to the Australian Energy Market Commission (AEMC) to make a submission to the Senate's select committee on electricity prices. We are an independent, national body responsible to the Standing Council on Energy and Resources (SCER).<sup>1</sup> Our primary responsibility is to make and amend the national electricity and gas rules which govern the operation of these markets.<sup>2</sup> The rules include provisions governing how the regulator<sup>3</sup> sets the revenues of the monopoly network businesses. We also conduct reviews of the energy markets at the request of SCER.

The AEMC's statutory role as rule maker and adviser to SCER is established in the National Electricity Law and the National Gas Law. These laws were first passed in the South Australian parliament as the lead legislature and then by all other participating jurisdictions. Once passed in each jurisdiction, including the Commonwealth, we are empowered to perform the functions contained in the Laws and apply them in that jurisdiction. The statutory rule making process allows any individual or organisation to propose a rule change except the AEMC.<sup>4</sup> The consideration of rule changes requires us to follow an open and consultative process to ensure our decisions take account of the views of stakeholders. We make a decision on whether to make a proposed rule

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<sup>1</sup> The SCER is comprised of the energy and resources ministers of each Australian State and Territory.

<sup>2</sup> The National Electricity Rules apply in all the Eastern States and Territories of Australia. The National Gas Rules also apply in all of the Eastern States and Territories of Australia, but some of the provisions also apply in Western Australia. The recently introduced National Energy Retail Rules apply in the ACT and Tasmania, but the other Eastern States are expected to adopt these Rules in the future.

<sup>3</sup> The Australian Energy Regulator (AER) is the relevant regulator under the National Electricity Rules and under the National Gas Rules in the eastern states. The Economic Regulatory Authority (ERA) is the relevant regulator of the National Gas Rules in Western Australia.

<sup>4</sup> Unless it relates to the correction of minor errors or involves non-material changes.

change by assessing the proposed changes against the National Electricity or Gas Objective. These objectives require the AEMC to consider whether the proposed rule change will or is likely to contribute to the achievement of economically efficient outcomes in the long term interests of electricity and consumers. Once we make a final determination on a rule change request it amends the National or Electricity Gas Rules. Separate government approval is not required for rule changes to take effect.

Our function to conduct reviews, is primarily advisory, and the SCER can decide whether to accept our advice or not. If it accepts our advice this often leads to SCER proposing rule changes to the AEMC to give effect to our recommendations. When we conduct a review we also undertake an open and consultative approach including issuing consultation documents and holding workshops and public forums to understand the perspective of different stakeholders.

The terms of reference for the Select Committee inquiry seeks information on electricity price increases in the past and expected increases in the future. It also seeks information on legislative and regulatory arrangements that affect network costs. The terms of reference further seek information about options to reduce peak demand and improve productivity, and then seeks information on mechanisms that could help households and businesses reduce their energy costs.. The terms of reference also seeks information on opportunities and barriers to the wider deployment of new and innovative technologies.

We have summarised below the analysis we have undertaken about the drivers of electricity price increases in recent years and projected increases in the future. We then discuss how our work program is helping to address the issues raised in the terms of reference, and ensuring that customers pay no more than is necessary for reliable electricity supply. For more detailed information on our work program, including consultation documents and stakeholder submissions, refer to our website.<sup>5</sup>

### **Drivers of electricity price increases**

The context in which electricity is produced and consumed has changed significantly over the past 15 years. The Australian economy has grown strongly and the community has seen increased wealth. The size of new houses and the use of air conditioning, amongst other factors have contributed to greater energy and peak demand. Technological change has contributed to increasing use of electrical devices in households and businesses. At the same time, concern about the environment, and particularly greenhouse gas emissions, has driven a series of policy initiatives aimed at reducing carbon emissions. These changes, among many others, are affecting the costs to deliver electricity to consumers.

More recently the Australian electricity sector has been affected by changes in the global economy. A combination of Australia's resources boom and the weakness of some other western economies led to a strengthening of the Australian dollar. This has affected the competitiveness of the manufacturing industry. There has been a slowdown in its use of electricity. More generally across all sectors in recent years we have seen a substantial slowdown in the growth of energy and peak demand for electricity, and future forecasts of energy and peak demand growth have been revised downwards.

The AEMC, at the request of the Council of Australian Governments (COAG), publishes an annual report on future price trends for electricity. This sets out an estimate of the expected change in residential retail electricity prices for the next three years based on available information. The AEMC uses information provided by the AER and States/ Territories to make the estimates. The analysis is for standing contract prices (regulated tariffs in all States other than Victoria, which no longer has regulated retail prices). Many customers in jurisdictions that have adopted retail

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<sup>5</sup> [www.aemc.gov.au](http://www.aemc.gov.au)

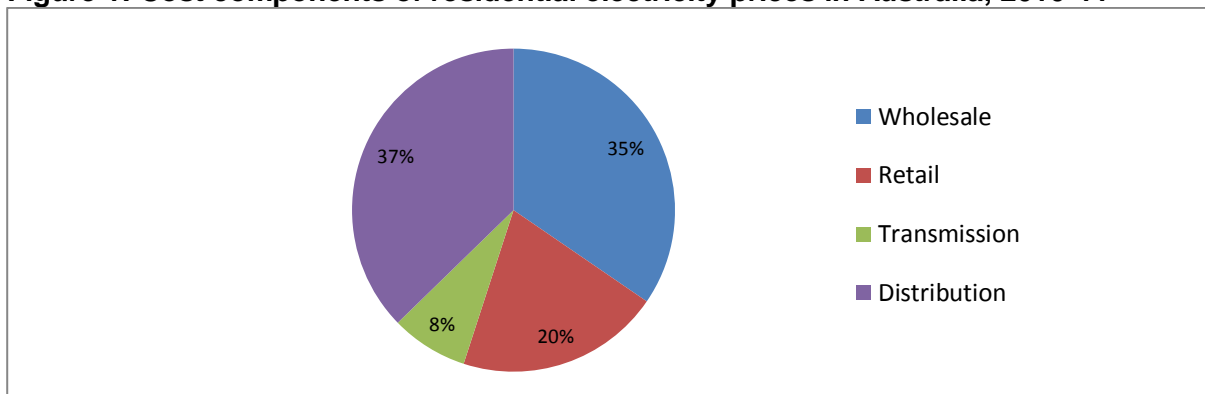
competition will be on market offers that are more attractive than the standing contract prices. Therefore, our report provides an indication of expected future trends in prices rather than a precise indication of the prices being paid by most consumers. The analysis below of drivers of price increases for electricity draws on our most recent report published in December 2011.<sup>6</sup> We also draw on other sources of information about historical price increases. We expect to publish our next report in December 2012.

Electricity prices are made up of a number of cost components. The main categories of costs are:

- Wholesale – the costs to generate electricity and sell it into the market. This includes the impact of the price on carbon emissions as it feeds through into wholesale electricity prices;<sup>7</sup>
- Retail – the costs to manage the delivery of electricity to end-users, including billing, customer service and risk management. Retail costs also include the costs of meeting the Renewable Energy Target and state based feed-in-tariffs;
- Transmission – the costs to transport electricity across high voltage wires from the generation source to distribution networks; and
- Distribution – the costs to transport electricity across low voltage wires from a transmission network to where it will be used.

The proportion of each cost component varies by jurisdiction. It depends on the generation fuel mix, the characteristics of existing networks, level of ongoing capital investment being undertaken by the network businesses, the level of retail competition, and the nature of any relevant jurisdictional programs and policies, amongst other factors. The figure below illustrates the national average for 2010-11, which does not include the impacts of the price on carbon emissions.

**Figure 1: Cost components of residential electricity prices in Australia, 2010-11**



Source: AEMC, Possible Future Retail Electricity Price Movements: 1 July 2011 to 30 June 2014, Final Report, 25 November 2011, p.18. Note: the values have been converted into percentage terms and recategorised to include a range of environmental policies<sup>8</sup> in retail rather than showing them separately.

We estimated that over the projection period (2010/11 – 2013/14) the average residential standing offer price would increase by 37 per cent. This included the impact of a price on carbon emissions

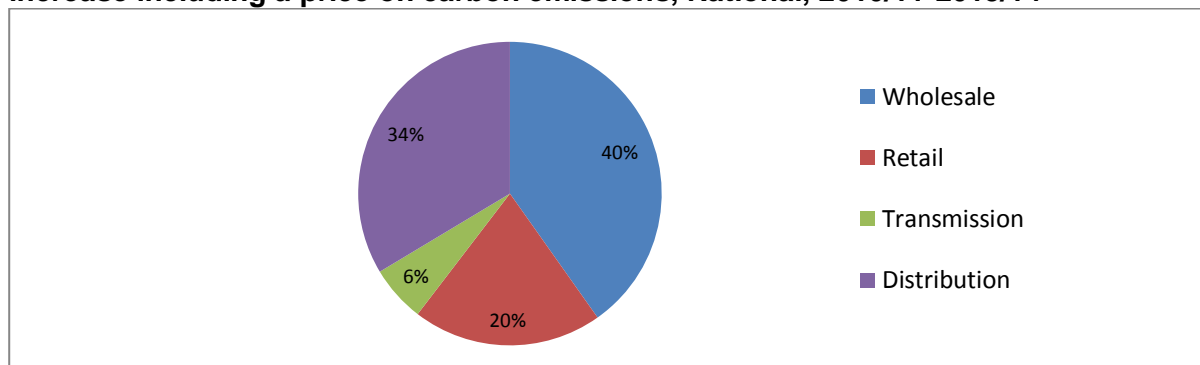
<sup>6</sup> AEMC, Possible Future Retail Electricity Price Movements: 1 July 2011 to 30 June 2014, Final Report, 25 November 2011, available at <http://www.aemc.gov.au/market-reviews/completed/possible-future-retail-electricity-price-movements-1-july-2011-to-30-june-2014.html>

<sup>7</sup> The wholesale electricity spot market price in any particular half hour since 1 July 2012 is expected to reflect the carbon emissions price liability of the marginal generator in that half hour. For example, if the last generator required to generate to meet demand has an emissions intensity of 1 then the wholesale electricity spot market price is expected to include \$23 to reflect the carbon emissions price liability of that generator.

<sup>8</sup> This includes the large scale renewable energy target, small scale renewable energy scheme, feed in tariffs, state based energy efficiency and demand management schemes as well as other state based schemes.

in 2012/13 and 2013/14. Figure 2 shows which components are forecast to account for the increase in future residential standing offer prices.

**Figure 2: Contribution of each component to possible future residential standing offer price increase including a price on carbon emissions, National, 2010/11-2013/14**



Source: AEMC, Possible Future Retail Electricity Price Movements: 1 July 2011 to 30 June 2014, Final Report, 25 November 2011, p.6. Note: the values have been recategorised to include a range of environmental policies<sup>9</sup> in retail rather than showing them separately.

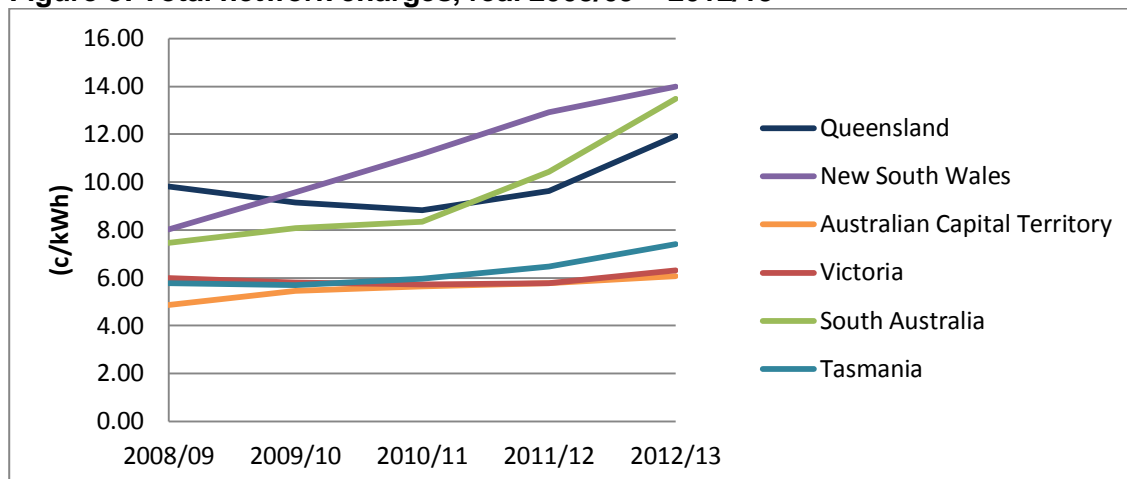
The allowance for the wholesale electricity component is projected to comprise 40 per cent of the total increase in regulated residential prices at a national level over the projection period. There are a number of factors behind this, including: changes in generation mix; higher capital costs for generators; increasing gas prices; and the impact of the price on carbon emissions.<sup>10</sup> Jurisdictional regulators have also sought to provide retailers with an increased allowance for financial hedging costs to reflect both changes in load profiles and increased volatility in spot prices.

The total retail component is projected to comprise 20 per cent of the total increase in regulated residential electricity prices at a national level over the projection period. The total retail component can be separated into two areas of cost increase drivers, namely retailing costs and environment obligation related costs. In regard to increases in retailing costs, a contributor is that some jurisdictional regulators have provided higher allowances for customer acquisition and retention costs due to higher levels of switching between retailers. The retailing costs account for about 12 per cent of the increases in regulated residential electricity prices. Retailers incur costs associated with a range of environmental policies to address climate change and these costs account for about 8 per cent of the increase in regulated residential electricity prices. The large scale renewable energy target is the largest of these at nearly a four per cent contribution and feed in tariffs and state-based energy efficiency and demand managements schemes accounting for between two and three per cent each. Notwithstanding the closure of some jurisdictional Feed-in-Tariffs, the costs associated with jurisdictional Feed-in-Tariffs primarily for Solar PV installations will continue to feature in consumers' bills for many years into the future as in most jurisdictions owners of the installations are entitled to receive the Feed-in-Tariff for a number of years.

Network costs have been a key driver of electricity price increases and are forecast to drive some further increases. Since 2008/09 these prices have been increasing, which is illustrated in the figure below.

<sup>9</sup> This includes the large scale renewable energy target, small scale renewable energy scheme, feed in tariffs, state based energy efficiency and demand management schemes as well as other state based schemes.

<sup>10</sup> The difference between the total possible increase over the projected period with a price on carbon emissions (37.2%) and without (29.4%) is 7.8 per cent.

**Figure 3: Total network charges, real 2008/09 – 2012/13**

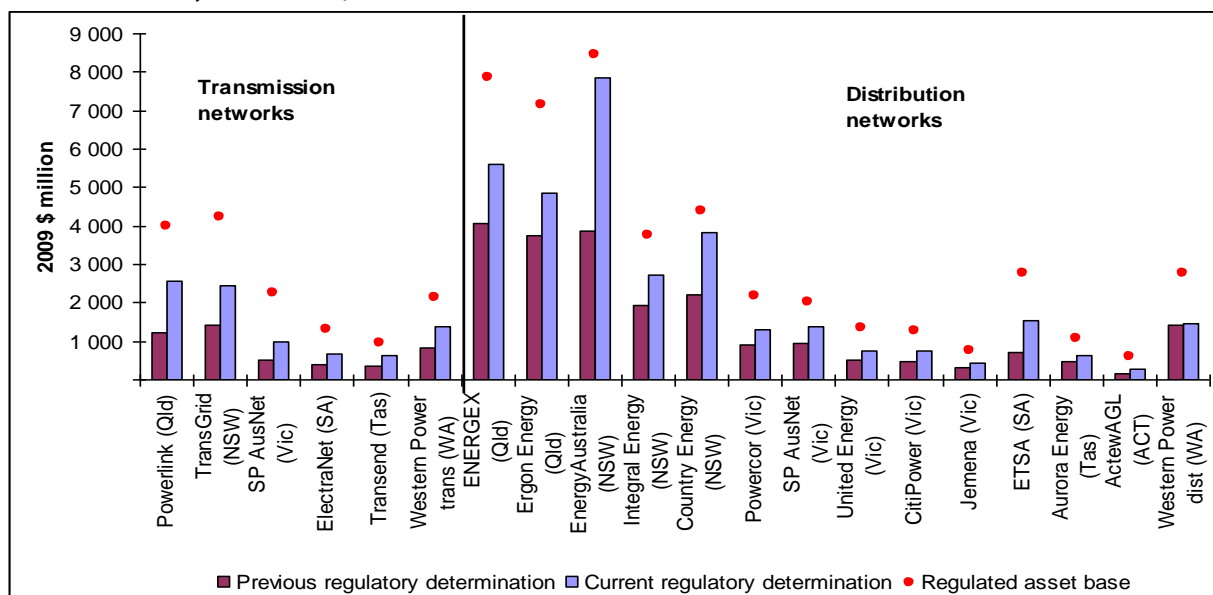
Source: AEMC,<sup>11</sup> deflated using the relevant Capital City CPI from the ABS

To provide an efficient outcome for consumers a balance between reliability of supply, certainty for investors, lead times for project development and efficient use of assets, the regulatory approval process for networks usually approves revenue allowances for periods of five years, with incentives for businesses to efficiently manage investment over that time. As a consequence, network related costs for individual businesses are known for between two and five years into the future, depending on the date of the last regulatory review. These known costs have been incorporated into the forecast.

Distribution costs are expected to contribute to 34 per cent of the total increase in residential electricity prices at a national level over the projected period. Distribution costs are expected to increase because of higher levels of investment to meet peak demand and replace ageing assets, as well as higher capital costs as a result of the global financial crisis and increased prices for materials which are inputs to their projects. Transmission costs are expected to contribute to price increases, but to a lesser extent at six per cent of the possible increase in residential electricity prices at a national level over the projection period. This is also due to investment to meet growing peak demand as well as higher prices for materials which are inputs to their projects. This is illustrated in the figure below which shows for every network the capital expenditure for the current regulatory period is above the allowance for the previous period.

<sup>11</sup> AEMC, Possible Future Retail Electricity Price Movements: 1 July 2011 to 30 June 2014, Final Report, 25 November 2011; AEMC, Future Possible Retail electricity Price Movements: 1 July 2010 to 30 June 2013, Final Report, 30 November 2010; and prices for 2008/09 were obtained from DNSP and TNSP published prices and calculated on the same basis as for the other years.

**Figure 4: Increases in network capital expenditure compared to the last regulatory determination, real 2009\$**



Source: AER and the WA Economic Regulatory Authority. For WA, the current regulatory determinations cover a three year period rather than the five year period that applies for NEM jurisdictions.

Differences in the markets or regulatory arrangement for each cost component affect how changes in costs flow through to prices. Of the cost components in electricity, only wholesale and retail providers face competitors. In contrast, the transmission and distribution network businesses (together 'networks') are natural monopolies and have no competitors in their supply areas. As a result network prices are regulated. Maximum retail prices are also regulated in all jurisdictions except Victoria. However, as described, not all the projected changes will affect all consumers in the same way since in some jurisdictions more than half of customers are not on the maximum retail tariffs with their suppliers.<sup>12</sup>

Below we discuss each element of the supply chain and how our work program is identifying changes to improve the efficiency of energy markets. These projects contribute to addressing many of the issues raised in the Committee's Terms of Reference.

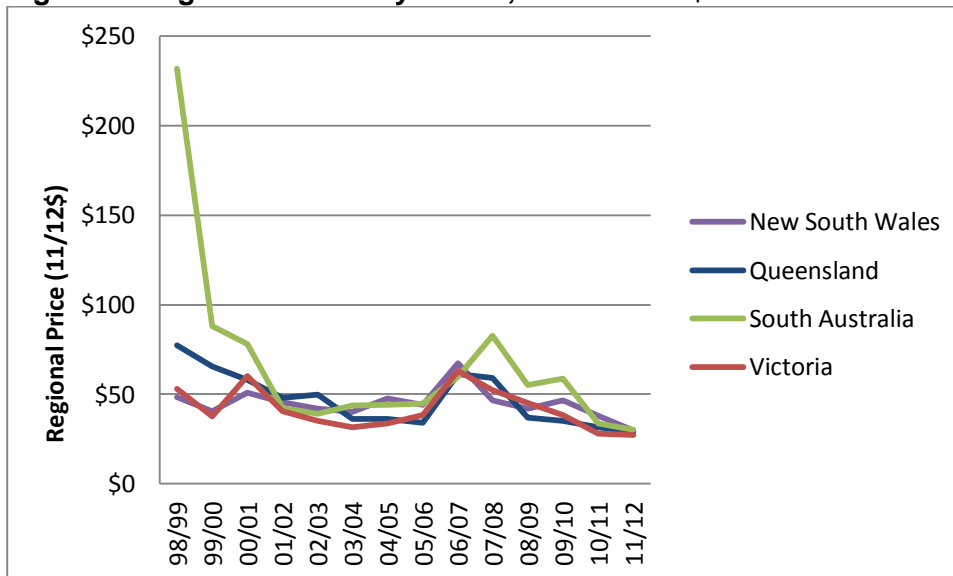
### The wholesale electricity market

The wholesale electricity spot market finds the least cost portfolio of generation to meet demand at any point in time allowing for any network constraints, with prices calculated for each half hour period. Generators offer their capacity in to the spot market and the market operator determines the least cost combination of generation to meet demand. The wholesale spot market can be quite volatile in its pricing outcomes, so retailers and generators often enter financial hedging contracts to smooth their revenues. Where the contracts are made through exchanges, such as the Sydney Futures Exchange, the prices and volumes are reported, but the names of the two parties to the contract are not reported. Bilateral contracts, often known as Over-the-counter contracts are not publicly available. The prices for such contracts should generally reflect expected future wholesale spot prices plus an allowance for the risk management costs involved in entering such contracts.

<sup>12</sup> AEMC, Possible Future Retail Electricity Price Movements: 1 July 2011 to 30 June 2014, Final Report, 25 November 2011, p.i.

In recent years there have been substantial declines in wholesale spot prices. Prices in the last two financial years have been the lowest in real terms in the four mainland states in eastern Australia since the start of the NEM in 1998. The figure below illustrates this downward trend in prices.<sup>13</sup>

**Figure 5: Regional Electricity Prices, real 2011/12\$**



Source: Calculated using AEMO annual average data, inflated using the relevant Capital City CPI from the ABS

The level of wholesale spot prices in recent years reflects the outcomes of the supply and demand balance at the present time. Since 1998 we have seen investment in new generation capacity to meet increased energy and peak demand. However, the recent reductions in the rate of peak demand growth and the new renewable capacity entering the market has meant that supply of generation has been relatively plentiful to meet demand levels.

The price on carbon emissions raises the costs of generators that emit carbon into the atmosphere. A price on carbon emissions together with the Renewable Energy Target (RET) should encourage renewable and less carbon intensive generators to account for a greater amount of the electricity generated. Since the introduction of the carbon price on 1 July 2012 there have been higher nominal spot prices,<sup>14</sup> as expected in the forecasts described above.

Efficient demand side participation 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. For this reason, we have proposed to allow 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.<sup>15</sup> This is part of our Power of Choice review which identifies opportunities to provide for a more efficient energy system.<sup>16</sup> We consider this proposal can directly contribute to reducing peak demand and improving the productivity of the national electricity system.

<sup>13</sup> The overall downward trend in prices was interrupted by the effects of the drought in 2006 and 2007. Lower cost forms of generation such as hydro and coal, which rely on water, were subject to operational restrictions.

<sup>14</sup> See <http://www.aemo.com.au/Electricity/NEM-Data/Average-Price-Tables>

<sup>15</sup> AEMC, Power of choice – giving consumers options in the way they use electricity, draft report, 6 September 2012.

<sup>16</sup> <http://www.aemc.gov.au/market-reviews/open/stage-3-demand-side-participation-review-facilitating-consumer-choices-and-energy-efficiency.html>

## **Retail markets and consumer engagement**

Retail markets are the most visible to consumers since retailers issue their bills. We are working on a number of projects which aim to encourage consumer engagement and strengthen competition.

### *Power of choice review*

The way consumers engage and participate in the electricity market is a key factor to ensuring that the costs of meeting electricity demand are no higher than necessary. Consumers can benefit from information, incentives and technology to make informed choices about the way they use electricity. For this reason we have focused on realistic, flexible options that can respond to the evolving market over the next 15-20 years.

The draft report for our Power of Choice review published last week recommends a package of reforms which include:<sup>17</sup>

- allowing large consumers or businesses acting on behalf of consumers to participate in the wholesale electricity market and receive the spot price for reducing their demand;
- enabling different electricity prices at different times of day and in different locations to reward consumers for changing their electricity use. This would be a gradual process with government programs to target assistance to vulnerable customers to improve their consumption pattern;
- improving consumers' access to usage information from their retailers;
- encouraging investment in metering technology;
- improving incentives for networks to consider usage reduction programs rather than investing in additional poles and wires;
- enabling consumers to sell their own generation, such as from small embedded generators, to a business other than their retailer; and
- coordinating and improving energy efficiency policies.

We consider that our proposals have the potential to improve the opportunities for wider deployment of new and innovative technologies if such technologies are the most efficient ways to meet the needs of consumers.

We will be providing a final Power of Choice report to SCER in November 2012.

### *Energy market arrangements for electric and natural gas vehicles*

We are providing recommendations on the energy market arrangements needed to support the economically efficient uptake of electricity and natural gas vehicles. Our draft recommendations seek to manage how the electric vehicle is supplied with electricity and that the vehicle is charged in the most effective way that minimises costs to all consumers. This advice is closely linked to analysis being done in our Power of Choice review. We are currently consulting on our draft advice prior to preparing a final report.<sup>18</sup>

### *Connecting embedded generators*

In June 2012 the AEMC initiated the rule change process on a rule change request proposed by ClimateWorks Australia, Seed Advisory and the Property Council of Australia. The rule change request seeks to make a more timely, clearer and less expensive process for connecting

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<sup>17</sup> AEMC, Power of choice – giving consumers options in the way they use electricity, draft report, 6 September 2012.

<sup>18</sup> <http://www.aemc.gov.au/market-reviews/open/energy-market-barriers-for-electric-and-natural-gas-vehicles.html>



embedded generators to distribution networks. We are currently reviewing responses to our consultation and expect to make a draft determination later this year.<sup>19</sup>

#### *Reviews of the effectiveness of retail competition*

SCER has recently announced that we will be commencing a review of the effectiveness of retail competition in electricity and gas markets in NSW.<sup>20</sup> This review will focus on progressing reform in retail energy markets, which includes promoting competition and removing retail price regulation where competition is deemed effective. We will be providing a final report and recommendations in September 2013. We have previously reviewed energy retail markets in Victoria, South Australia and the ACT.<sup>21</sup>

#### *National Energy Customer Framework*

We have rule making functions under the National Energy Customer Framework. Currently, it has been adopted in the Australian Capital Territory and Tasmania with expected application in other jurisdictions in due course. Once adopted nationally, it is expected that harmonisation will benefit retailers by reducing regulatory burden and encouraging competition through greater market efficiency. It also includes standardisation of information and protections which will benefit consumers. Further information on our role in the national retail energy market is on our website.<sup>22</sup>

#### *Other proposals to encourage greater consumer engagement*

We have proposed a number of amendments to the electricity rules to address a lack of focus on consumer engagement in the regulatory process. This includes requiring network businesses to explain the extent to which they have engaged with consumer representatives in developing their pricing proposals. This will be taken into account by the regulator when assessing their cost forecasts. Both businesses and the regulator will be required to publish summary papers to assist consumer representatives to focus on the key issues for comment.<sup>23</sup> Consumer engagement by networks can be facilitated by the rules that we make, but this is an issue that requires a culture change by networks to embrace the value of engaging much more actively with their consumers.

A number of representatives of large consumers have made rule change proposals to the AEMC, and the AEMC engages regularly with a broad range of consumer representatives. The AEMC also provides the administrative support functions for the Consumer Advocacy Panel that provides grants to support consumer advocacy activities. The AEMC would be supportive of initiatives to improve the ability of consumers and their representatives to participate further in the regulatory and other processes relevant to energy market development. We consider it is important that such initiatives are undertaken in a way that seeks to ensure that the broad range of consumers' interests are represented while distinctive State based views are still represented.

#### *Impact of the enhanced Renewable Energy Target on energy markets*

At the request of the Ministerial Council on Energy, we assessed the impact of the enhanced renewable energy target on the price of electricity for retail customers, the level of emissions, and the security and reliability of electricity supply. Our analysis illustrated that consideration needs to be given to the impact of the RET on incentives for other forms of generation that may be required

<sup>19</sup> <http://www.aemc.gov.au/Electricity/Rule-changes/Open/connecting-embedded-generators.html>

<sup>20</sup> SCER, Meeting Communique, 8 June 2012

<sup>21</sup> <http://www.aemc.gov.au/market-reviews/completed.html>

<sup>22</sup> <http://www.aemc.gov.au/retail/retail-energy-market.html>

<sup>23</sup> AEMC, Economic Regulation of Network Service Providers, and Price and Revenue Regulation of Gas Services, Draft Rule Determinations, 23 August 2012. See: <http://www.aemc.gov.au/Electricity/Rule-changes/Open/economic-regulation-of-network-service-providers-.html>

to ensure reliability of supply. The RET provides a source of revenue for renewable generators in addition to the wholesale electricity price available to all generators, and therefore can lead to increased supply of generation capacity in addition to that which would be required to meet projected demand. We also found that the interaction of the Small Scale Renewable Scheme with State Feed-in-Tariffs had led to significant difficulties in forecasting the costs that retailers would need to pay to meet their RET liabilities, and therefore the retail prices that consumers would face.<sup>24</sup>

## **Transmission and distribution networks**

Price and service outcomes of networks that are experienced by consumers are a function of three drivers: the legal and regulatory framework; the application of the framework by the regulator; and the corporate governance of the businesses. We are currently undertaking a range of projects to review the regulatory arrangements that affect network prices. A brief overview of these projects is provided below.

### *Economic regulation of network service providers rule change*

We have proposed changes to the regulatory framework that target the largest factors which determine network prices: the efficiency of capital investments and the rate of return allowed on investments.<sup>25</sup> The proposed changes give the regulator scope to develop methods and processes so that consumers do not pay more than necessary for a reliable supply of electricity by networks. The regulator will have access to new tools to incentivise network service providers to invest efficiently, such as reviews of past investment for efficiency. The overall objective is to only allow investments which are efficient to be included in consumer prices. The regulator would also be required to publish annual benchmarking reports, comparing the relative efficiencies of network businesses.

A new rate of return framework will apply across the electricity distribution, transmission and gas sectors. It requires the regulator to make the best possible estimate at the time a regulatory determination is made. The regulator is required to undertake an open and consultative process at least every three years to develop its approach to setting the rate of return. The common framework also enables the regulator to take a range of different approaches to estimate the return on debt component, potentially allowing for reduced risk for debt financing for network businesses, which could feed through into lower prices for consumers.

Our draft determination is currently out for consultation. We expect to make the final determination in November 2012.<sup>26</sup>

### *Transmission frameworks review*

We have proposed an option to fundamentally transform the way transmission investment decisions are made and generators access the market.<sup>27</sup> This is important because the efficiency of the electricity market is affected by the capacity of the transmission network to transport electricity from the lowest cost generator to where it is needed.

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<sup>24</sup> AEMC, Impact of the Enhanced Renewable Energy Target on energy markets, Interim Report, 25 November 2011, p.vii.

<sup>25</sup> AEMC, Economic Regulation of Network Service Providers, and Price and Revenue Regulation of Gas Services, Draft Rule Determinations, 23 August 2012.

<sup>26</sup> See <http://www.aemc.gov.au/Electricity/Rule-changes/Open/economic-regulation-of-network-service-providers-.html>

<sup>27</sup> AEMC, Transmission Frameworks Review, Second Interim Report, 15 August 2012.

Policies to provide incentives for renewable generation to be developed mean that the location of future generation may be very different from where power stations are currently located, which means it is particularly important that there are appropriate incentives to lead to an efficient overall cost of generation and transmission. Under our proposals all of the costs associated with generating and transmitting electricity would be taken into account by future generators when making their location decisions. Generators would bear much more of the risk of their investments. This is in contrast to the current arrangements where customers directly pay the full cost of transmission. We are currently consulting on these proposals and will provide a final report to SCER in the first quarter of 2013.

#### *Review of distribution reliability outcomes and standards*

We are currently considering whether there are benefits to developing a national approach to expressing, delivering and reporting distribution reliability outcomes.<sup>28</sup> Currently, distribution reliability outcomes are set separately for each jurisdiction using different approaches. We are currently considering submissions and will provide a draft report to SCER in November 2012. Increases in distribution reliability standards by some States a number of years ago have been contributory factors to increases in network costs.

We have recently completed advice to the NSW government on the costs and benefits of alternatives for the future level of distribution reliability in NSW – including whether long-term savings could be achieved if standards were altered to reflect levels of reliability acceptable to the community.<sup>29</sup> We found that a relatively small reduction in reliability can lead to a significant reduction in required investment, which could ultimately lead to lower bills for customers. We consider that it is very important that decisions about reliability standards by State Governments are taken based on a good understanding of the costs of different reliability standards and the Community's view on the standards they want.

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<sup>28</sup> See <http://www.aemc.gov.au/market-reviews/open/review-of-distribution-reliability-outcomes-and-standards-national-workstream.html>

<sup>29</sup> AEMC, Review of Distribution Reliability Outcomes and Standards, Final Report – NSW workstream, 31 August 2012. See <http://www.aemc.gov.au/market-reviews/completed/review-of-distribution-reliability-outcomes-and-standards.html>

**Summary**

The drivers of electricity price increases in recent years have been primarily network costs and the costs of meeting the environmental objectives of all levels of government. The wholesale electricity market has experienced record low prices, and retail competition continues to develop in those states and territories with full retail competition. It is expected that wholesale electricity costs will increase in future. Our Power of Choice review is developing recommendations that will give consumers greater opportunities to participate in these markets and to make more informed decisions about how much and when to consume electricity.

There are a number of work programs and decisions being made that are intended to give greater confidence that network costs are no greater than they need to be to provide a reliable supply of electricity to consumers. Efficient provision of network services requires stakeholders across the industry to play their role effectively, which includes effective rules for the regulation of networks, effective application of the rules by the regulator, and good corporate governance by shareholders of the network businesses.

We would be pleased to provide further information to the Committee on our work programme.

Yours sincerely,

Steven Graham  
Chief Executive