



Committee Secretary
Senate Select Committee on Electricity Prices
PO Box 6100
Parliament House
Canberra ACT 2600

SUBJECT: Factors and solutions for electricity price inflation (Supplemental)

Dear Secretary

I am prompted to provide this supplement to our initial response to the request for submissions from interested parties regarding the pricing of electricity following our attendance at the public hearings and our review of submissions by other parties.

I note the focus regarding the impact for the pricing of carbon emissions, while a contributing factor to overall price increases and differing opinions are held regarding the appropriateness for this impost, it occurs as multiple factors increase costs. Had the carbon pricing been introduced before 2009, it would have been the major cause of any increase, in 2012, it is a minor player.

I note the interest for disparate pricing across the jurisdictions served by the National Electricity Market. In respect of seeking equity for all Australians, as the infrastructure and demand is heterogeneous, the risk for supply varies by location, justifying pricing effects. However, the structural mismatch between the oversight and regulation between the layers of generation, distribution and retailing creates a obfuscating of responsibility.

In our effort to establish who our natural client might be, we find that despite clear benefit from Crowd Power as part of the supply infrastructure, there is no commercial beneficiary. The greatest financial benefit arises for the removal of future distribution and generation infrastructure investment. This infrastructure investment has been the key justification for the recent socially and politically undesirable increases in electricity prices. However, not building this infrastructure lowers the profitability for most parts of the industry. That is, the market has the preserve incentive to use the regulatory framework to justify infrastructure investment that in turn forces increased prices.

There is no positive market response to a shrinking scale of operations. In this respect, without regulation, there is no pathway to higher returns on capital from a reducing scale of supply. It is clear that the future of the energy markets in developed economies must shift structurally such that the rules of access to the market invert the incentive. That is, energy efficiency and smaller infrastructure must increase the return on capital.

In the absence of such a regulatory framework, sensible solutions such as ours are presented with a market failure. In considering this challenge, I wish to return to the issue of the waste in our economy from the building of infrastructure for the fleeting periods of peak demand.

I note the various solutions often proposed to secure Australia's energy future including, aggregated and smart-grid enabled demand management, energy efficiency, energy storage, and distributed generation to name a few. In each and every case, they involve large investment themselves that only might offset investment in generation, but that definitely will not substantively offset the need for investment in expanding the transmission capacity for peak demand.

Taking distributed generation or the commonly promised solution of distributed storage in the grid. Each will offset investment in generation, each will offset the need for some high-voltage distribution capacity expansion, but neither will impact the investment in the majority of the network. The deployment of these technologies increases the capital base that secures supply while lowering aggregate demand, thus worsening the economics. The result is increased prices with a progressively increasing ratio due to network charges.

As often referenced, the marginal infrastructure cost in securing the supply to the most recently installed typical \$1,000 domestic air conditioner is in the order of \$7,000-10,000. There can be few more damning inequities in our society where the poorest families are so directly and substantially subsidising the quality of life of those more fortunate. Crowd Power breaks this link affording government with a pathway to a fairer Australia.

I attach a supplemental document for consideration by the Committee that outlines how Crowd Power works and what the next steps are in having this Australian technology make a difference for every Australian. Realising this and the many other solutions that are part of Australia's secure energy future are dependent on the market heading on a pathway where saving energy and offsetting investment has more incentive than using energy and building infrastructure.

Yours faithfully

Kym Lennox
Chief Executive Officer
12 October 2012