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

SENATE SELECT COMMITTEE ON ELECTRICITY PRICES FOR INQUIRY AND REPORT

Alinta Holdings Pty Ltd (trading as Alinta Energy) welcomes the opportunity to provide comment on the Senate Select Committee (the Committee) Inquiry into Electricity Pricing.

Alinta Energy is an active investor in the energy retail, wholesale and generation markets across Australia. Alinta Energy has around 700,000 retail customers in Western Australia, South Australia and Victoria with a commitment to growth across the National Electricity Market. It also owns and operates over 2500MW of generation facilities in Australia.

Introduction

Alinta Energy appreciates the difficult task before the Committee, which has been asked to inquire into the reasons for rising electricity prices and report on opportunities to lower customer's bills. However, Alinta Energy appreciates and understands the impact that rising utility bills have upon consumers.

In undertaking this inquiry, it's important the Committee understand that it should be seeking to achieve *efficient* pricing in the electricity market, which does not necessarily translate into the lowest price. In assessing what is an efficient price, it should be noted that:

- An efficient price is one which allows retailers to recover their reasonable costs and allows competition to continue in the market. Ultimately it is consumers who benefit from competition placing both downward pressure on prices, and increasing the choice of energy products available;
- Energy efficiency and environmental policies generally add costs that must be passed on to consumers. Alinta Energy suggests that any new policy would benefit from a thorough cost-benefit assessment prior to its introduction. Ideally this assessment would include an evaluation of consumers' willingness to change behaviour if the success of the policy is predicated on this;
- Regulatory uncertainty and change, as well as duplicated or excessive regulation, adds to retailers' administration and compliance costs. These are ultimately passed through to customers; and
- Governments (State & Federal), energy retailers, community groups and individuals all have a role to play in assisting customers who have difficulty paying their electricity bills. Lowering prices to all customers to address this social policy issue is an ineffective tool.

Alinta Energy believes the best way to ensure efficient market pricing is to replace price regulation with less market distorting forms of regulation, such as price monitoring. Only where the market fails to deliver on specific policy initiatives should the Government intervene to provide incentives to ensure policy objectives are achieved. Alinta Energy still firmly believes in the original intentions of electricity market reform and that the competitive sectors of the electricity supply chain perform best when operating in a truly efficient market free of interference. In the long term a competitive and dynamic energy market will provide for superior outcomes relative to any form of price control for consumers. The natural monopoly aspects of the electricity supply chain will always need a level of Government oversight, and Alinta Energy is supportive of current attempts to refine the regulatory framework in these areas to ensure the best outcome for both investment and consumers.

Reasons for rising electricity prices

Recent increases in retail prices have been largely driven by network costs (which make up about 40% of a customer's bill) and green costs (eg: the Renewable Energy Target and the Carbon Price, which account for about 15% of a customer's bill). Other costs, namely retail operating and wholesale costs, have remained largely constant in real terms in recent times.

We note there are 2 reviews already underway which are considering the cost drivers in these two key areas, namely the:

- AEMC's consideration of the proposed rule change regarding the economic regulation of network service providers; and
- the Climate Change Authority's *Renewable Energy Target Review*.

Alinta Energy believes these reviews add value to the policy debate, and any recommendations should be fully considered and implemented prior to the consideration of any additional changes in either area.

A number of jurisdictions have also announced changes to their solar feed in tariff schemes which have also reduced costs, most recently in Victoria. The impact of these changes should be given sufficient time to flow through to consumers before any further amendments are considered.

However, there are two issues related to transmission costs which might warrant the Committee's further consideration and ultimately a referral to an appropriate industry body for review. These are:

- the way in which transmission companies rate their transmission lines. Alinta Energy believes a technical appraisal of these ratings and a move to seasonal and more dynamic line ratings would increase asset utilisation and likely delay some additional network costs or investments notwithstanding any additional incremental maintenance that may be required; and
- the value of customer reliability for network investment, often cited to assess the benefits of a network investment in a particular jurisdiction, is in excess of the market price cap of wholesale electricity in the National Electricity Market. The basis for these differences should be assessed to ensure a bias towards publicly funded networks over privately funded generation does not occur.

Energy Efficiency

The Committee has been requested to explore ways in which demand-side solutions may assist in consumers reducing their bills by decreasing their consumption. Examples include smart metering, energy audits, and a white certificate scheme.

Retailers are well placed to advise on the cost and benefit of these schemes given they are actively involved in delivering on the various state based schemes designed to encourage consumers to become more energy efficient. In addition to obligations prescribed under these state based schemes, many retailers provide energy saving information to help their customers better manage their energy consumption.

In assessing the viability of any energy efficiency scheme Alinta Energy makes the following comments:

- Retailers and other market participants are generally best placed to understand and offer energy efficiency solutions to their customers.
- The effectiveness of any energy efficiency policy is reliant on the customer's appetite to participate and change their behaviour. This includes their willingness to change their consumption patterns and appliances. This must be understood before embarking on rolling out new technologies, such as smart meters.
- There are a number of different white certificate schemes in place today which are all different and have quite high administrative and compliance costs. Such costs should be considered when undertaking a cost/benefit assessment of an energy efficiency solution, including whether a single national scheme is more cost effective.
- An energy efficiency scheme targeted at low income households should be funded by Government programs tailored to suit the unique challenges experienced by low income households.

Consumer Protection

The Committee has been asked to determine the adequacy of consumer protection measures and the benefits of adopting the National Energy Customer Framework (NECF). In relation to NECF Alinta Energy notes:

- NECF is expected to deliver benefits to both industry and customers in terms of the cost and the administrative and compliance efficiencies that arise from the harmonisation of state based schemes as well as increased consumer reporting and protection. For example, the NECF regime has strengthened the hardship obligations for the industry.
- Despite a commitment from all relevant jurisdictions to implement NECF on 1 July 2012, to date only Tasmania and the Australian Capital Territory have adopted NECF.
- Retailers have invested significant resources to adapt to NECF, but now continue to incur costs to be compliant with the extended jurisdictional regimes in NSW, Victoria, South Australia and Queensland; as well as being ready for NECF in anticipation of its implementation.
- Alinta Energy would like to see all jurisdictions commit to implementing NECF as a priority.

The delay in adopting NECF means that potential flow on cost savings for consumers are yet to be realised, and retailers continue to lack regulatory certainty in terms of their compliance and regulatory obligations. Alinta Energy urges the Committee to consider these impacts arising from the delayed implementing of NECF. We encourage the Committee to recommend the immediate adoption of NECF by all relevant jurisdictions. Furthermore such adoption should be with the absence of proposed jurisdictional derogations to ensure the maximum benefit from harmonisation.

In relation to assisting customers experiencing hardship in meeting their financial obligations for the supply of electricity, this must be a shared responsibility of Governments (State & Federal), energy retailers, community groups and individuals. Retailers currently run hardship programs to assist customers who may be experiencing difficulty in paying for their electricity consumption. These programs include things such as payment programs, additional time to pay, access to financial counselling assistance with energy efficiency advice and in some cases assistance in accessing energy efficient appliances. Retailers also work hand in hand with community groups and welfare agencies to assist customers.

The long term sustainable solution to managing customer hardship must be one that is a combination of the retailers existing programs and that of a greater level of participation and responsibility by Governments in administering its social welfare policy that will then lead to better assisting those customers experiencing genuine hardship.

Price deregulation

Alinta Energy encourages the Committee to consider the benefits of price deregulation as a way of providing consumers with benefits driven by increased and sustained competition.

Under the Amended Australian Energy Market Agreement (2006), the Council of Australian Governments agreed to phase-out retail energy price regulation in jurisdictions where competition is found to be effective. However, this has only been achieved in Victoria, despite both the ACT and South Australia being found to have effective competition.

Given retail price regulation is inefficient and stifles product innovation and impedes price and service competition, Alinta Energy believes it should be a priority for governments to replace price regulation with less market distorting forms of regulation, such as price monitoring.

Conclusion

Alinta Energy welcomes this Inquiry which is to report on electricity prices. It's important the review focus on considering achieving efficient prices which would be best achieved through price deregulation and minimising regulatory burden.

In relation to the specific matters raised in the Terms of Reference, Alinta Energy submits:

- There are two key reviews underway, relating to network costs and the Renewable Energy Target which should be completed prior to suggesting any further changes to those regulations.
- Recent policy changes related to state based solar feed in tariffs and NECF should be implemented and the benefits allowed to flow through before any further changes to either scheme are introduced.
- Any energy efficiency policy should be subject to a cost benefit analysis prior to its implementation.
- Regulatory uncertainty and change, as well as duplicated or excessive regulation adds to retailers' costs which are passed through to customers in their bills. In this regard, Alinta Energy encourages the Committee to recommend the adoption of NECF as soon as practicable by all NEM jurisdictions.
- Governments are key in assisting customers who have difficulty paying their electricity bills.



Yours sincerely

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