

Executive Summary

There are many reasons for recent large increases in electricity prices, including the replacement of out-dated infrastructure and increased peak demand. However, in the committee's view, the most significant of these is inefficient over-investment in network infrastructure—the poles and wires.

Current regulation of the National Electricity Market (NEM) creates a perverse incentive for network businesses to engage in inefficient over-investment. To deal with this, the committee has made a number of recommendations to ensure greater scrutiny of network business investment proposals by the Australian Energy Regulator (AER). These include:

- adoption of new guidelines for assessing rates of return and a requirement that these guidelines are reviewed every three years;
- changes to the National Electricity Rules (NER) to ensure more efficient forecasting of capital returns, return on debt, and capital and operational expenditure as well as decoupling of network revenues from energy volumes;
- greater guidance for tariff-setting by network businesses; and
- the ability for the AER to conduct ex post reviews of network business capital expenditure.

The National Electricity Objective (NEO) outlines the purpose of the National Electricity Law (NEL). To ensure that regulation and operation of the NEM reflects the current energy policy framework and promotes broader environmental policy objectives, the committee has recommended that the NEO is better aligned with these broader policies.

Peak demand has also contributed to recent electricity price rises. On very hot or very cold days, demand for electricity increases dramatically. These peak demand events generally occur for less than 40 hours per year; however, network businesses have been investing in infrastructure to ensure the electricity grid can handle peak demand and this puts pressure on retail electricity prices.

To reduce the impact of peak demand events on the system and subsequently on retail electricity prices, the committee has recommended that the Standing Council on Energy and Resources (SCER) agree:

- to the introduction of cost reflective pricing for electricity consumers, subject to continued provision of a flat, regulated tariff for vulnerable consumers;
- to the roll-out of smart meters for households and businesses in certain circumstances;
- that prior to the introduction of these measures, Australian governments fund and undertake a comprehensive consumer education and information campaign; and

- to introduce changes to the regulation and operation of the NEM that would encourage and allow consumers, or authorised third parties, to sell their demand in the wholesale electricity market.

Many residential and commercial electricity consumers are installing embedded generation (for example co- and tri-generation and solar photovoltaic generation) in their homes and businesses: this has a positive impact on both electricity prices and the environment. The committee heard that network design, connection and cost barriers currently impede energy produced via embedded generation being fed into the grid. The committee believes that SCER should examine these barriers and consider appropriate regulatory and operational reforms to encourage the connection of embedded generation to the electricity grid.

Most residential consumers are poorly informed when it comes to retail electricity arrangements, the price of electricity and how their electricity consumption impacts on their bill. As a consequence, consumers have been unable to choose retail electricity offers better suited to their needs or modify their electricity consumption in ways that would help minimise their electricity costs. Further, and also to the detriment of consumers, their interests are poorly protected and represented in the NEM. To address this, the committee supports the introduction of the National Energy Customer Framework (NECF) and has recommended that all states and territories adopt these model laws by 1 July 2013. The committee has also recommended establishment of a national consumer advocacy body to promote the interests of electricity consumers in NEM regulation and decision-making.