



**ENERGY
CONSUMERS
AUSTRALIA**

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15 November 2021

Ms Nicola Falcon
Australian Energy Market Operator
Level 22, 530 Collins St
Melbourne VIC 3000

RE: Competition Benefits Inputs, Assumptions, and Methodology

Dear Nicola,

As you know, Energy Consumers Australia is the national voice for residential and small business energy consumers. Established by the then Council of Australian Governments Energy Council in 2015, our objective is to promote the long-term interests of energy consumers with respect to price, quality, reliability, safety and security of supply. Like AEMO, ECA believes that leveraging expertise from across the industry is pivotal in developing a robust Integrated System Plan that supports the long-term interests of energy consumers.

This submission is in response to an 'out of cycle' consultation initiated on 15 October 2021 to amend the recently published ISP Methodology to include a class of benefits in the ISP modelling and cost benefit analysis known as 'competition benefits.' These benefits are proposed to be included in the Draft 2022 ISP to be published on 10 December 2021. Our summary comments on the matter of including "competition benefits" in the 2022 ISP focus on process and methodology.

In short, ECA does not believe that the process for including competition benefits has been sufficiently exhaustive given the nature of the change to the ISP methodology. On this basis, we recommend AEMO leave competition benefits out of the 2022 ISP while encouraging you to fully consider including competition benefits in line with other methodological considerations during consultation for the 2024 ISP. On content, we find the methodology for calculating so-called "demand response" benefits sorely lacking an evidence base; as a result, we recommend that this class of competition benefits be completely excluded. Finally, we note that consumers' own investments in rooftop solar have likely had significant impact in reducing market power from incumbent parties. The proposed methodology's lack of consideration of the ways in which consumer investments in rooftop solar and other DER impact competition and market power is unclear at best and a fatal flaw at worst. The lack of clarity on how competition benefits interact with DER and the electrification already assumed in scenarios underline the need for a more exhaustive consultative and evidence-finding process prior to introducing competition benefits into the ISP's methodology.

Issues with the Process for Consulting on Competition Benefits

All transmission projects bring certain costs from the day a project is commissioned with uncertain benefits that are realized day-by-day over the life of the project. Consumers pay these certain costs over long-time frames with limited opportunities for relief, even if consumers never realize the anticipated benefits. This inherent asymmetry in the nature of costs and benefits for transmission projects requires particularly detailed and transparent consultation on significant categorical and methodological changes to the classes of benefits.

The process of consulting on a substantial change so late in the planning and forecasting cycle (the Draft 2022 ISP is to be published on 10 December, around 6 weeks after this consultation's public forum on 26 October), makes meaningful engagement challenging. AEMO's consultation paper and public forums did not clearly identify the genesis of a substantial reversal in the ISP's methodology to include a class of benefits that had previously been withheld from the ISP methodology. There has



been no change in AEMO's requirement to consider competition benefits. Likewise, the methodologies available for calculating competition benefits are not new. As the consultation paper makes clear, there are two standard methodologies that have been used to examine and calculate these potential benefits for some time.

The only meaningful change in circumstance that ECA can identify is TransGrid's recent inclusion of a methodology developed by EY to include competition benefits in the PACR for HumeLink. Unfortunately, there is no formal consultation process associated with a PACR so there has been limited scrutiny to date of the approach. If AEMO adopts competition benefits in the ISP, it is reasonable to expect them to be de facto included in all transmission reviews – including the RIT-T – going forward.

AEMO has established the ISP as the gold-standard for both consultation in the NEM and transmission planning. Making a last-minute change in the category of benefits to be included in the 2022 ISP fails the standard that AEMO has established for the ISP in consultation.

Like AEMO historically – and as detailed below – ECA has some concerns about the inherent uncertainty associated with competition benefits. Given this inherent uncertainty, ECA believes that AEMO needed to follow a more fulsome process for competition benefits than what is available in the six weeks prior to the release of the Draft ISP. For competition benefits to effectively move from exclusion to inclusion within the ISP methodology, AEMO should follow its regular process for establishing the ISP's methodology. ECA would welcome a careful analysis and consultation of whether and how to include competition benefits in the regular order of methodology setting for the 2024 ISP.

Issues with the Methodology Proposed for Calculating Competition Benefits

The methodology for calculating so-called “demand response” benefits proposed is weak and unsupported. EY argues that consumers receive benefits from improved market competition by driving additional, utilitarian consumption of electricity from lower prices. None of the resources provided show evidence for using a blanket -0.05 across all consumers. Indeed, neither AEMO nor EY have done any primary research to indicate what, if any, elasticity of demand exists for energy consumers in the NEM. There is likewise no clear referencing of secondary research or other studies that were relied upon to identify the -0.05 figure.

ECA itself has conducted no research on demand elasticity, and we recommend excluding this benefit until and unless such research has been conducted. We represent all residential and small-business consumers in Australia, and our experience suggests that this benefit is too small and unsupported to be included. Energy consumption behavior patterns are complicated and driven by many non-economic factors. While many consumers are likely to benefit from increased electrification, those benefits are already baked into the scenarios AEMO has developed for the ISP. Additional competition benefits arising from increased utilitarian consumption are very uncertain. A proper analysis would show that many if not most residential and small business consumers will not realise significant benefits from “demand response”, simply because as renters or with limited disposable income, they do not have the agency or means to purchase additional appliances that enable increased utilitarian consumption.

All business consumers – including small business consumers – consider energy investments alongside a suite of other potential business investments that might in one way or another increase revenue or reduce costs. Sustained lower energy prices are only likely to manifest themselves into increased consumption if they materially improve the prospects of energy investments compared to other investment opportunities. It is unclear if price decreases would be sufficient to do so, and again, neither AEMO nor EY have provided any evidence or research to support their claim that they would.



Finally, we note that consumers' own investments in rooftop solar have likely had significant impact in reducing market power from incumbent parties. The proposed methodology's lack of consideration of the ways in which consumer investments in rooftop solar and other DER impact competition and market power is unclear at best and a fatal flaw at worst.

Indeed, DER is a major influence on the need for future transmission in the NEM. Nevertheless, the methodology described for competition benefits is largely if not completely silent on the ways in which it considers or adapts to the changing nature of demand and supply from consumers own energy investments. As noted above, the methodology appears to only include utilitarian consumption benefits above and beyond what is included in the scenarios, but the interaction between forecast electrification and additional consumption from reduced prices is not made clear at all in the methodology described in the consultation documents. Furthermore, there is no mention of the impact consumers' rooftop solar has had on market power and how increased active DER – likewise forecast in most scenarios – will also have material impacts on market power. The truncated consultation process late in the development of the 2022 ISP Draft has not enabled stakeholders to fully understand these issues, much less make sensible recommendations for how best to incorporate them – if at all – into a potential competition benefits methodology.

In closing, ECA re-iterates that AEMO has established the ISP as the gold-standard for both consultation in the NEM and transmission planning. Unfortunately, the inclusion of competition benefits – and particularly “demand response” benefits based on unsupported price elasticity figures – threaten that reputation both on the process for consultation and the methodologies presented. We urge you to exclude competition benefits from inclusion in the ISP's methodology until more time can be allotted for a substantive review of all issues and a proper evidence base can be developed.

Yours sincerely,

Brian Spak
Director, Energy System Transition