



**UNITING**  
**COMMUNITIES**

**Submission to:**

**Australian Energy Market Operator (AEMO)**

**From:**

**Uniting Communities**

**Subject:**

**Causer Pays Procedure Consultation**

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## Background

UnitingCare Australia is the national body for the UnitingCare Network, one of the largest providers of community services in Australia. With over 1,600 sites, the network employs 39,000 staff and is supported by the work of over 28,000 volunteers. UnitingCare Australia works with and on behalf of the UnitingCare Network to advocate for policies and programs that will improve people's quality of life. UnitingCare Australia is committed to speaking with and on behalf of those who are the most vulnerable and disadvantaged, for the common good.

Uniting Communities is a member of the UnitingCare network, working with South Australian citizens across metropolitan, regional and remote South Australia through more than 90 community service programs.

Uniting Communities has provided financial counselling services for many years along with a range of low income household support services. It is through working with clients in these services that we have understood that periods of rapidly rising utility prices for extended periods over the past decade are amongst the main reasons for people being pushed in financial stress. The unpredictability of utility bills and rapid increases have broken many lower income household budgets, despite the skill of low income people to manage their finances.

Uniting Communities is undertaking energy advocacy responsibilities on behalf of UnitingCare Australia and is also informed by its own service delivery.

### Focus of the "Causer Pays" consultation

Our understanding is that this consultation is primarily seeking to resolve how all money that is allocated to purchase about 110 MW of frequency control ancillaries service (FCAS) is allocated within the market, and the associated incentives associated with this allocation.

### Understanding of the Current Situation

Frequency control of energy supply is essential for the appliances used by consumers to function effectively. Frequency control services keeps electricity supply across the National Electricity market (NEM) at 50 cycles per second, ie Hertz (Hz). Frequency control is related to, but separate from the 'energy only' function of the NEM to supply electricity measured in 'watts', more usually for households measured in kilowatts per hour (Kwh). A part of AEMO's role is to minimise fluctuations about the target of 50 Hz, and this is undertaken through 4 second, 60 second markets and five-minute dispatch intervals.

From a consumer perspective, this consultation is not about the cost of frequency control services, as this is set, but rather about the allocation of these costs and their transparency for consumers.

The guiding principle for allocation of frequency control services has been the notion of "causer pays", that is the generators or related services, that cause frequency disruption should pay for the corrections through the FCAS system, and in proportion to the amount of variation they produce.

### Concerns

#### 1. Potential for Barriers to entry

There is the potential for "causer pays" to support the incumbent market participants and to provide barriers to entry for potentially new participants. Similarly current arrangements provide advantages too larger generators with a range of generation type giving them capacity to balance their own

generation input, an option may not be available to a smaller new entrant providing one generation technology.

Discouraging newer smaller and more nimble (quicker ramp rates) generation may be unhelpful for market development, particularly at a time of substantial transition. It is important that in application of the principle like “causer pays,” that there is no outcome that stifles innovation and new market entrants.

## 2. Market complexity

We are increasingly concerned about (maybe) exaggerated expectations of market mechanisms and their ability to deliver a very broad range of outcomes in Australian energy markets. Within a single electricity bill there is expectation that there are price signals regarding:

- amount of energy used
- efficient network charges for transmission and distribution
- efficient generation
- greenhouse gas emissions from generation
- time of use of the end customer
- produced use at peak demand periods
- jurisdictional circumstances

While market mechanisms are being used for

- energy supply
- frequency control ancillaries services
- metering
- system restart ancillaries services
- there is a rule change proposal to establish an “inertia” market
- carbon pricing (or not)
- the list goes on

We are concerned that there is a risk of Australian energy markets having so many submarkets and seeking so many price signals, that it will become near impossible for end consumers and for market participants to relate a particular behaviour to what in the end is a single price signal, in one quarterly, or monthly bill for most consumers.

It is understood that causer pays for frequency stability is not a significant cost driver for end consumers, but the point remains that the more complex market becomes, the higher the transaction costs, the greater the costs to end consumers.

We suggest that as a guiding principle the simplest solution to a problem (though not simplicity for simplicity’s sake) is more likely to be an efficient solution through reduced direct or indirect transaction costs.

So we ask, is there a simpler solution to the “causer pays principle”, that does not cost consumers any extra?

### Maybe another Way

The most important question about allocation of FCAS costs relates to the incentives for various market participants, both in the short-term and long-term.

The current causer pays methodology is very complicated and we do not believe that it provides directly useful information to market participants, as monthly settlement statements do not provide much help to a generator in real time dispatch for energy and frequency.

Maybe we need to consider frequency control as a merit good (see appendix A for a definition) within the market, meaning that all participants, including consumers, benefit from frequency control services. Economic theory says that merit goods are undersupplied or undervalued with net societal benefit significantly exceeding the sum of costs to individuals. We suggest that frequency control ancillary services meet this criteria. The value of frequency reliability, for the wholesale market, network service providers and final consumers, is much greater than the cost of providing the 110 MW of FCAS.

Regarding frequency control, the subject to 'causer pays,' as a merit good suggests to us that it is better to incorporate the costs of frequency control into wholesale costs at a fixed amount per megawatt dispatched. This dramatically reduces the complexity of current systems, makes the costing more transparent for market participants including consumers and most likely reduces the transaction costs of operating the system, effectively providing a benefit to consumers. These costs may not be substantial, but any cost saving that doesn't reduce quality or reliability of supply is a good thing.

#### Fall Back approach

Our 'second best' but acceptable fall-back position is to support option 1 from the initial discussion paper, for the reasons presented in the discussion paper and consequently to accept the "Summary of preferred options" from section 4 of the issues paper.

## **Appendix A**

### **Definition: Merit goods**

"The market for *merit goods* is an example of an incomplete market. Merit goods have two basic characteristics:

Firstly, unlike a *private good*, the net private benefit to the consumer is not fully recognised at the time of consumption. Net private benefit is the utility from gained from consumption less any private cost incurred, and equates to net consumer surplus. In the case education, which is widely considered to be a merit good, pupils and students cannot possibly know the specific private benefit to them of getting good grades at school, college or university. They will be well aware of the sacrifice required to study, but will not know the benefits to them in terms of a future job, salary, status and skills. Therefore, with education, as with other merit goods, there is a significant information failure in terms of expected benefits.

Secondly, while consumption of a merit good also generates an external benefit to others, from which society gains, this is unlikely to be known or recognised at the point of consumption. Given that decisions to consume are driven by self-interest, it is unlikely that this external benefit will be taken into account when the consumer of a merit good evaluates its worth."

- [http://www.economicsonline.co.uk/Market\\_failures/Merit\\_goods.html](http://www.economicsonline.co.uk/Market_failures/Merit_goods.html)