WHO WE ARE
AND WHAT WE DO

30-year infrastructure strategy

Independent advice to government (autonomous and electric vehicles)

Research (improving CBA)

OUR VALUES

Independence  Influence  Partnership  Openness  Innovation  People
Energy in the 30-year strategy

- Mandatory cost-reflective pricing
- Improved building efficiency
- Transition out of brown coal generation
- Provide greater information on which areas are well suited to absorb additional capacity
- Update guidance on installation of solar PV on buildings
Economic rationale for our institutional set up

Review the main challenges facing our institutions and the types of tools they have available

Analyse the role of institutions in extending cost-reflective pricing to consumers.
Economic rationale for government institutions in electricity markets

- Natural monopolies in transmission and distribution
- Transition to a low-carbon economy
  - Internalising the negative externality from carbon emissions
- Reliability for a product delivered continuously and instantaneously with limited storage.
  - Coordination game
  - Free rider/strategic behaviour
Current challenges for our institutions

**ACCESS:** Will consumers in different locations be able to obtain reliable low-carbon energy that is delivered efficiently?

**TECHNOLOGY:** Will this occur given rapid/uncertain technological changes in the demand for and supply of energy?

- Demand: electric vehicles
- Supply: distributed renewable generation and storage

**EQUITY:** Can this be done without unnecessarily adverse impacts on low-income and other vulnerable Victorians?
Design and maintain a market for energy, including its rules

Design and deliver efficient solutions to market failures and current challenges:

• Prices have a lot to offer where information is diffuse, costs and benefits heterogeneous and the cost of varying from a known target is small.

• Direct intervention may be more efficient where the solution is known and uncontroversial, the costs from varying from a target high and prices are less effective.
THE NEED TO CONSIDER COST REFLECTIVE PRICING: VICTORIA ELECTRICITY CONSUMPTION NOV 2016 – OCT 2017
Now it's time to look at cost reflective pricing

Primary effect of cost reflective pricing is on investment in generation, transmission and distribution capacity.

More efficient to not build capacity not needed under cost reflective pricing rather than closing it after it is built.

Currently turning over capacity in Victoria:

• Ageing fleet of coal fired stations based in La Trobe Valley.
• Push to reduce carbon emissions and pull of lower costs of renewables located in other parts of Victoria.
• Investment needs to be shaped to also deliver reliability
What progress has been made on delivering cost reflective pricing?

Smart Metering Infrastructure is in place as a result of the Victorian government’s mandating its introduction – built between 2009-2013 while a moratorium remained on flexible pricing.

National rules modified (2014-2016) to facilitate demand management by AEMC following “Power of Choice” review.

Victorian government: for large business – opt-out, for small business and residential, opt-in of cost reflective pricing.

All major retailers offer cost-reflective pricing plans but work by Grattan Institute shows 0.3% of residential customers are on them.
Where to from here?

Continue work as there is potentially significant return to accelerating the diffusion of cost reflective pricing

- What can be done within Victoria?

Consider alternatives and refinements as:

- Problem is about a few peaks (critical peak pricing?)
- Mixed evidence on responsiveness of consumers to prices
- Combination of pricing and more direct interventions?
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THANK YOU