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Dr Kerry Schott AO

Chair, Energy Security Board

Submitted by email: info@esb.org.au

7 March 2019

Consultation on Strategic Energy Plan Metrics

Dear Dr Schott,

AGL Energy (**AGL**) welcomes the opportunity to make a submission in response to the Energy Security Board's (**ESB**) Consultation on metrics to inform its Strategic Energy Plan.

AGL is one of Australia's largest integrated energy companies and the largest ASX listed owner, operator and developer of renewable generation. Our diverse power generation portfolio includes base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources. AGL is also a significant retailer of energy, providing energy solutions to around 3.5 million customers throughout eastern Australia.

In addition, AGL is continually innovating our suite of distributed energy services and solutions for customers of all sizes. These behind-the-meter energy solutions involve new and emerging technologies such as energy storage, electric vehicles, solar PV systems, digital meters, and home energy management services delivered through digital applications.

Strategic Energy Plan

The Independent Review into the Future Security of the National Electricity Market (**Finkel Review**) recommended that, by mid-2018, the COAG Energy Council develop and maintain a Strategic Energy Plan for the National Electricity Market (**NEM**). The purpose of the Strategic Energy Plan was to ensure a clear strategic focus for the Energy Council's work and to provide clarity of direction to market bodies and market participants. We are supportive of this approach.

We note that it is proposed that the ESB's annual Health of the NEM report will assess progress against the Strategic Energy Plan each year. The Strategic Energy Plan is also intended to form the basis of the Statement of Expectations and Roles for each of the market bodies. The outcomes, objectives, and metrics are therefore of critical importance as the structure of market bodies and their work plans will be assessed with reference to the success in reaching metrics under the Strategic Energy Plan.

In our view, the metrics should therefore be objective, specific, and reasonable. Aspirational outcomes are useful for the energy industry to work towards; however, in reaching those outcomes, metrics for success need to be attainable or at least objectively measured. Where this measurement is not possible, qualitative metrics should be considered instead of quantitative metrics. We are supportive of changes the ESB has made since the previous iteration of the draft metrics in this regard.

Care should also be taken that specific metrics are realistic so as not to affect the operation of the market with consequences in other areas. We are very supportive of the ESB's comments in the consultation paper that the metrics are not intended to act as implicit goals or targets in and of themselves, and that metrics should be neutral and not include implicit or explicit targets for success.

However, we have some concerns that the proposed metrics attempt to be comprehensive and may not adequately represent the full range of information to adequately assess the stated objective. As an example, basic metrics regarding access to energy efficiency programs may show an increasing trend of customers installing energy efficiency appliances, but without separating this data into owners and renters, it will be difficult to highlight clear discrepancies in access to these improvements for renters and low-income earners.

We have included feedback in relation to specific metrics below, but note generally that where possible, publication of broad metrics should be accompanied by appropriate commentary and qualifications on the limitations of using headline data in making robust assessments regarding the success of the strategic energy plan objectives. It is unlikely that a useful assessment of complex objectives will be able to be made by reference to a single metric alone.

Source of Data

We are supportive that the ESB should source data from existing reports and support the inclusion of the source of data in the draft metrics. There are significant efficiencies to be gained by utilising existing market data and we consider that the collection of data and publication of metrics should be made as simple as possible to provide improve clarity of industry information.

However, it is apparent that for some of the proposed metrics that existing sources of data do not exist or rely on reporting frameworks that have only recently been developed or are still under consideration. Therefore, there is likely to be significant work to ensure that the development of these data sources meets the expectation of the ESB. We encourage the ESB to continue to work to ensure that the data that is being utilised for the Strategic Energy Plan is clear, transparent, and informative.

Specific comments on the metrics proposed by the ESB are included in **Attachment A** to this document.

Should you have any questions in relation to this submission, please contact Aleks Smits, Manager Policy & Research on 03 8633 7146, or myself on 03 8633 7252.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'Eleanor McCracken-Hewson'.

Eleanor McCracken-Hewson

Senior Manager Policy, Research & Stakeholder Engagement, AGL Energy



Attachment A – Proposed Metrics

Objectives	AGL Proposal
<p>Energy is increasingly affordable for all consumers, supported by adequate consumer protections and access to dispute resolution</p>	<p>Affordability and customer satisfaction metrics are clearly very relevant to the overall operation of energy markets. Spend as a % of household disposable income may need to be considered alongside increases or decreases in energy usage, for example, as a result of energy efficiency improvements or demand increases, as well as external economic forces, such as economic growth and real wage increases, to obtain a clearer picture over time of affordability. It may be the case that more specific energy indicators, such as customers paying on time and customers on a payment plan or in a hardship program, could contribute more directly to measuring this outcome. Tariff assessment needs to be objective and take in account potential changes as a result of proposed legislation to implement a reference rate, default offers, or regulated price caps.</p> <p>The ESB could also further consider the overall value of concessions and rebates, as well as metrics as they relate to the upper and lower quintile of income earners, which can provide greater insights into affordability concerns.</p> <p>Regarding C&I energy costs, competition on an international basis is difficult to measure objectively and depends on numerous factors such as international purchasing power parity, subsidies and tariffs, energy efficiency improvements, contracting structure, sector-specific factors, and the characteristics of the NEM compared to other energy markets.</p>
<p>Consumers are empowered to manage their demand and can access distributed energy and energy efficiency solutions</p>	<p>Metrics on access to DER and energy efficiency could also include the number of solar and battery installations. A qualitative assessment of access to programs may be a useful measure rather than simple installation figures. For example, programs such as AGL’s Energy Insights application, which provides information regarding the way a customer uses energy in their house by utilising an algorithm, would not appear to be captured by the proposed metrics despite it being a clear example of consumer empowerment.</p> <p>Separation of empowerment issues between owners and renters would be useful, as well as assessments concerning lower-income earners, as incentives are starkly different and represent different issues in the market. For example, installation of smart meters alone may not enable renters to access DER and energy efficiency solutions.</p> <p>Metrics relating to data access by customers and third parties might indicate engagement with DER and energy efficiency services.</p>
<p>Consumers are able to easily identify and secure the best deal for their circumstances</p>	<p>The concept of a best contract might be too arbitrary if measured on price alone without taking into account the evolving nature of bespoke tariffs and energy agreements offering multiple services including EV charging, DER services, and additional products and services. Some element of the range of offers from retailers might be useful to include.</p> <p>A measurement of the % of customers that were able to find a better offer after seeking a better offer may more directly measure this objective, including the channels through which a better deal was found to assess which channels are operating most efficiently. This may require reporting on consumer sentiment or net promoter score (NPS) information regarding specific customer experiences.</p> <p>Requirements that customers can sign up in a set number of clicks can create perverse outcomes for customers, where important information and the switching experience for customers is not prioritised as it should be. Customer satisfaction on the switching experience is a better metric and is far more important as an objective than a number of mouse clicks, which has little relevance to the outcome sought in this instance.</p>



<p>Vulnerable consumers are on suitable pricing plans, receiving concessions when needed, and can benefit from distributed energy and energy efficiency schemes</p>	<p>We agree that no customers on a retailer’s hardship plan should be on a standing offer (although we also note EIC is also required to enact these changes), but the ‘best’ deal needs to be considered carefully. For example, high pay on time discounts or direct debit benefits may not be appropriate for vulnerable customers. We think this needs to be assessed more qualitatively than quantitatively. All retailers should have hardship policies that meet these objectives so the metric could be better measured as compliance with regulated hardship policies.</p> <p>Further metrics on the structure of energy concessions and adequacy of social security for low-income households would be useful, although this may be better suited to a broader review of concessions reform in Australia.</p> <p>Public housing tenants are not the only low-income households which face barriers to accessing DER and energy efficiency, and metrics which highlight access issues for other groups (e.g. renters) should also be considered and recognise that addressing hardship is a shared responsibility that cannot be resolved by energy reform alone.</p> <p>Changes in Government spending on energy programs targeted at low-income earners would be a useful metric.</p>
<p>Markets operate safely, securely and efficiently, under full range of operating conditions, with minimal intervention</p>	<p>We agree that these are useful metrics. However, the level of detail may be the limiting factor in the usefulness of the dataset; for example, measuring indicators system-wide, at a feeder level, or with even more granularity. Performance can vary significantly across network areas and power system standards can vary at a very localised level that can be hard to measure.</p> <p>Intervention in this context could include market operator intervention but also network intervention (i.e. constraints). Outages should be clearly reported by cause (i.e. network, scheduled, unscheduled, capacity shortfall, etc.)</p> <p>Metrics regarding ancillary services may also be appropriate to measure this objective, and there may need to be an emerging assessment of inertia and system strength capabilities in the market as is made by AEMO on an annual basis.</p>
<p>System planning and development is informed by clear and transparent rules</p>	<p>This objective would better link back to the processes to action system planning proposals in a clear way that meets cost benefit tests. Measurable progress against proposed developments do not need to be advanced if they do not meet investment tests; what is more important is that the cost-benefit test is appropriately considered.</p> <p>Better metrics may therefore be productivity metrics against costs in the market from investment in regulated assets, as clear and transparent rules should lead to more efficient investment outcomes. Investor sentiment and planning, connection, or development timeframes could also be measured to reflect ease and simplicity of process.</p>
<p>Electricity and gas sectors efficiently deliver at least their share of emissions reduction target/s while ensuring reliable supply</p>	<p>The primary metric should be if there is a policy in place to drive emissions reductions with annual targets, ideally at the national level, but otherwise at sub-national levels. Energy market participants cannot operate with long-term efficiency without this guidance to meet a clear target. If there are clear targets, emissions in both the electricity generation and natural gas sector can be reported on both an absolute and per capita basis can be reported in accordance with these targets.</p> <p>We support measuring reliability against a standard which reflects the value of reliability to customers, such as the reliability standard which is currently set at 0.002% unserved energy and also reporting transparent information on procurement, dispatch, and costs of the RERT.</p>



<p>Investors efficiently manage risk to support investment, operation, retirement and innovation decisions</p>	<p>We strongly support reporting on the accuracy of AEMO's forecasts and ESOO with actual market conditions, given the importance of forward looking conditions to the investment outlook, and the relationship between AEMO's forecasts and market interventions such as the proposed Retailer Reliability Obligation. AEMO's forecasts of demand, their assessments of the market to meet demand is becoming critically important to market operation.</p> <p>The ESB could also report on overall investor confidence metrics; however, committed investment and ease of connection is likely to be the best indicator of this objective.</p>
<p>Wholesale and retail markets are competitive and deliver efficient outcomes for consumers</p>	<p>Noting that the ACCC will be undertaking an extensive electricity price report six-monthly, it may be more prudent to measure more objective price and competition metrics.</p> <p>Regarding competition, it might be worth considering the HHI (Herfindahl-Hirschman Index, which is a commonly accepted measure of market concentration. The adoption of this metric will also assist with international comparison.</p> <p>Regarding price, objective market metrics such as customer switching numbers, retail offers in market, number of retailers, innovative offers, etc., may more directly establish improvements in competition.</p>
<p>Deep, liquid and transparent financial markets for electricity and gas and related services</p>	<p>Volume and price of exchange traded products is already transparent. Improvement in OTC transparency could however be measured, although adverse outcomes from improving transparency need to be measured against the benefits. AGL has previously provided a submission to the ESB in this regard.</p>
<p>Access to efficiently priced fuel and transport</p>	<p>Measuring access for gas relates more directly to improvements in gas supply; better metrics might be the existence of policy restrictions on supply development and levels of gas reserves as well as pipeline capacity trading metrics.</p> <p>Fuel reserves are already reported through AEMO; however, we could look specifically on how to improve these through provision of more transparent participant information.</p>
<p>Innovation is incentivised and enables value from new technologies</p>	<p>At a wholesale level, innovation in new types of derivatives and funding arrangements can be monitored; at a retail level, innovation is likely to take many forms that need to be monitored and reported on at a case-by-case level.</p> <p>Other metrics would be reporting on qualitative improvements and case-studies of innovative behaviour (or utilisation of sandbox arrangements to establish proof-of-concept trials) as well as sentiment of new entrants and existing participants through surveys.</p>
<p>Investment solutions are optimal across all resources</p>	<p>Could report on utilisation and improvement of non-network solutions to resolve network issues, as well as network productivity improvements.</p> <p>Could develop metrics on measuring efficient RIT-T and RIT-D processes for network investment. Metrics to measure the balance of transmission investment with generation investment could be considered as overall system cost is important, although generally speaking the best final metric might simply be reductions in energy prices over the long-term.</p>
<p>Efficient regulation of monopoly infrastructure</p>	<p>Not only the cost of capital but all inputs into network determinations should be in line with international and domestic standards on rate of return.</p>



	<p>Network productivity and reliability standards are already measured; other metrics would be network service order standards such as the time to complete and finalise disconnections and reconnections and perform actual meter reads. This data is currently not standardised or publically available but would be very informative to assess the performance of networks, as improvements in actual meter reads and days to perform service orders would drive better consumer outcomes.</p>
<p>Networks incentivised to be efficient platforms for energy services</p>	<p>Metrics would include utilisation of non-network solutions rather than capex costs in network augmentation.</p> <p>Decreases in connection times for customers connecting and reduction in localised system operating constraints such as extreme voltage conditions that affect customer's DER performance.</p>
<p>Governance arrangements support the achievement of the national energy objectives, and emerging issues are addressed in a coordinated, timely and consultative manner</p>	<p>We are very supportive of measurements to assess the efficiency of market bodies, including publication and adherence to consultation and decision-making processes and transparency of decision-making and timely publication of documents.</p> <p>This should also take into account the interaction between the market bodies and other regulators and Government bodies at a state and federal level.</p>