

28 November 2018

Dr Kerry Schott
Chair
Energy Security Board

Lodged by e-mail: info@esb.org.au

Dear Dr Schott,

ENERGY SECURITY BOARD – Strategic Energy Plan - Consultation on proposed metrics – (November 2018)

The Clean Energy Council (CEC) is the peak body for the clean energy industry in Australia. We represent and work with hundreds of leading businesses operating in solar, wind, hydro, bioenergy, marine and geothermal energy, energy storage and energy efficiency along with more than 5,800 solar installers. We are committed to accelerating the transformation of Australia's energy system to one that is smarter and cleaner.

The CEC welcomes the opportunity to provide feedback on the Energy Security Board's (ESB) '*Strategic Energy Plan Consultation on proposed metrics*'. The CEC is generally supportive of the proposed outcomes, but would like to make the following high-level comments.

- The proposed metrics would benefit from some more description about their rationale, and some of the metrics have consequences that need to be more holistically considered.
- Some objectives appear too broad and relatively simplistic to be useful and have not progressed to actual tangible metrics. Conversely, some proposed targets are absolute, and potentially unattainable.
- The ESB has not proportionately embraced, a clear outcome of decarbonising the energy sector as part of the on-going energy transformation.
- The ESB needs to consider the interdependencies between the various metrics to ensure a holistic picture is developed. For example, the current proposed metric of '*Measurable progress against a roadmap setting out development and implementation of solutions to identified system and market issues*' appears quite problematic and potentially divisive. The CEC's suggested holistic approach should assist in guiding the energy sector towards better aligning industry goals with the underlying intent of the ESB's.
- It is important that the ESB take the time to fully consider the issues to ensure robust final metrics. We consider the strategic energy plan can be a very valuable framework and it is appropriate that the ESB fully considers all these issues.

The Attachment to the submission provides some specific comments and suggestions on the proposed metrics for the ESB's consideration.

If you would like to discuss any of the issues raised in this submission, please contact either Ms Maryanne Coffey (the CEC's Project & Policy Manager) on (03) 9929 4137 or mcoffey@cleanenergycouncil.org.au or myself, as outlined below.

Yours Sincerely,

[Original signed]

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Attachment # 1 - Additional comments and suggestions

| Outcome/Objectives | ESB Proposed Metric | View | Comments |
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| Affordable energy and satisfied consumers | | | |
| Energy is increasingly affordable for all consumers, supported by adequate consumer protections and access to dispute resolution | Reduction in energy spend as a % of household disposable income | Support intent | Difficult to measure, average?, percentile of choice/comparison? The metric is dependent on many variables not directly related to the cost of energy. In recent years, wholesale and network costs have driven higher energy costs and need to be better emphasised for contextual purposes. |
| | C&I customers' energy costs are competitive with international counterparts | Support | Difficult to measure and monitor on a timely basis? Are the international comparisons going to be like for like as they are difficult. We would caution against using them unless parallels or caveats are very clear. |
| | X% consumer disputes/complaints resolved by retailers/ombudsman schemes | Support | Is this a binary concept (Yes/No)? Is there suitable timeframes to do so that are nationally consistent? Is this best conceived as an absolute target? Can jurisdictional ombudspersons provide data, trends and options based on actuals. |
| Consumers are empowered to manage their demand and can access distributed energy and energy efficiency solutions | Increase in consumers accessing data related to their energy usage | Support | What will be the Baseline and when will the measure commence? |
| | Increased participation in wholesale demand response or energy efficiency programs year on year | Support | It may be premature to measure the first issue. Might be easier to start at a C& I level. |
| Consumers are able to easily identify and secure the best deal for their circumstances | Increasing percentage of consumers on better/best contracts | Support | Difficult to measure at this point. This measure will need to be objective as possible and aim to have clear definitions - will it be better/best contracts? For example, is a customer better off on a variable market offer or a fixed price offer? It is always a 'point in time' answer. May need to tie-in with Federal Government initiative to have best offer by 1 July 2019. |
| | Increasing number of consumers using energy data and analytic tools (EME, switching sites, flipper sites) to make energy decisions | Theoretical support | Who is best placed to measure and aggregate such information? This could be assisted by promoting the AER and ESCV comparison sites, to name a few. |
| | Consumers can switch retailers in "five clicks" or less and will be changed to their new provider in less than 2 business days | Support | Can the ESB clarify the origins of the 'five-clicks' metric? |
| Vulnerable consumers are on suitable pricing plans, receiving concessions when needed, and can benefit from distributed energy and energy efficiency schemes | 100% of vulnerable consumers on better/best market contracts | Support | Difficult to benchmark and assess. A better solution maybe for retailers to publish an AER/ESCV Vulnerable customer tariff, on to which vulnerable customers are moved once they fall into this category. In general, this is likely to be a stretch target. |
| | Clear hierarchy of easily accessible support and concession measures available for vulnerable consumers Energy efficiency, solar and/or storage programs implemented in public housing where cost efficient | Theoretical support Support in principle | |
| A secure electricity and gas system | | | |
| Markets operate safely, securely and efficiently, under full range of operating conditions, with minimal intervention | Electricity market operates within power system security standards (frequency operating standard) and technical requirements (voltage, temperature, current limits) | Support | These standards should be in line with existing NEM institutional standards and NER requirements and obligations. There should be no ambiguity on such expectations. |
| | Market operated in secure state for greater than X% of time each year | Support | This should be in alignment with existing AEMC Reliability Panel monitored benchmarks and which should be accounted for in its Annual Market Performance Review report and consultation. |
| | System wide outages (aggregation of network and any generation related) less than X% per year | Theoretical support | ESB must be cognisant of unforced outages and <i>force majeure</i> events. |
| | System interventions < X per year | Theoretical support | ESB must be cognisant of unforced outages and <i>force majeure</i> events. There could be significant annual percentage changes to address relevant power system incidents. |
| | Gas system operates securely within technical operational parameters | Support | |
| System planning and development is informed by clear and transparent rules | Measurable progress against a roadmap setting out development and implementation of solutions to identified system and market issues | Support | This tends to give <i>de facto</i> standing to an ISP-type document. A second or third best option is to also give some additional credibility and standing to TNSP's Tx Annual Planning Reports. This metric is likely to be subjective and potentially divisive. |
| | Review of National Electricity Rules conducted by ESB by 1 July 2020 | Theoretical support | However, this may prove a logistical challenge as reviews, rule changes, policy initiatives, and the transformation of the sector will continue concurrently with any such review. The CEC cautions that If the ESB's review triggers an avalanche of proposed rule changes, the industry as a whole will be even more stretched in trying to respond. This could be damaging to the reform process. |
| | Establishment of the Cyber-Security Framework and implementation for high and medium risk participants within established timeframes Adaptation processes are in place to upgrade energy infrastructure to deal with increasingly severe weather events and cyber-security risks | Support in general Support in general | |

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| A reliable and low emissions electricity and gas supply Electricity and gas sectors efficiently deliver at least their share of emissions reduction target/s while ensuring reliable supply | Electricity and gas sector emissions reduce in line with the sectors' share of national emission reduction target/s | Support | Should this be clearly enumerated? It is currently quite vague. Maybe consider actual electricity and gas sector emissions are on track to meet their proportionate share of national emissions reduction targets. |
| | Reliability standard achieved | Support | This assumes there is no significant change to the Reliability Panel's direct linkage to the Reliability Standard or how the Enhanced RERT may evolve. |
| | Annual reduction in number of times RERT procured and activated | Theoretical support | Expectations are that these are already kept to a minimum by AEMO. |
| | Development of, and then maintenance of or improvement in, key metrics: Strategic reserves | Support | Clarity of definitions are critical as will any amendment process going forward |
| | Flexibility and dispatchability | Support | Clarity of definitions are critical as will any amendment process going forward |
| | Investors efficiently manage risk to support investment, operation, retirement and innovation decisions | Support | Forecasts will be difficult to measure. The NER already requires generators to provide related information (e.g. for ESOO and EAAP purposes) and the recent finalisation of the three-year notification of closure Rule. |
| | Accurate and transparent market information on forecast demand, generation investment and generation withdrawal to inform market participants (and potential participants) | Support | Forecasts will be difficult to measure. The NER already requires generators to provide related information (e.g. for ESOO and EAAP purposes) and the recent finalisation of the three-year notification of closure Rule. |
| | Average forward swap and cap contract prices for electricity in line with the efficient levelised cost of energy | Not Supported | This appears quite theoretical and contract prices can be influenced by a range of variables. Furthermore, the metric proposed will be a lag indicator of the market fundamentals coming back to the fore. Forcing swap and cap contract prices into a specific price range will be overly interventionist and not strictly solve the root cause of the market's issues. |
| Cost of capital for new electricity and gas market investments are competitive with international standards | Not Supported | This may see a reduction in cost of capital viz a viz lower RoR overseas? Costs of capital are variable across industry players, and will fall as risks in the market reduce. If they do fall, it may be a lag indicator that the investment environment is considered less risky. Again, this isn't something that can or should be mandated. It could also be difficult to monitor as costs of capital are commercial in confidence for private firms. | |
| All market participants comply with any rules around notice of closure | Support | This should be a given under the NER and not necessarily a metric, unless public airing/shaming of non-compliant participants is a goal of the ESB. | |

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| The effective development of open and competitive markets (where appropriate) Wholesale and retail markets are competitive and deliver efficient outcomes for consumers | Retail and wholesale prices over time (contract and average spot) reflect the long run marginal cost of producing electricity and gas | Theoretical support | The proposed metric appears quite theoretically appealing and fundamental. However, contract prices can be influenced by a range of variables. There might also be scope to ask whether the long term cost of electricity offered by generators into the NEM could be a worthwhile metric for further consideration. |
| | Market concentration continues to decline across all regions | Support in general | This is highly dependent on market--based decisions. |
| | Reduction in # of customers on standing offers over time | Support in general | |
| | Increase in new market participants year on year | Theoretical support | |
| | Deep, liquid and transparent financial markets for electricity and gas and related services | Support in general | |
| | Increase in transparency of contract markets (prices, duration) for products including swaps, caps, PPAs and demand response | | |
| | Increase in the ratio of traded volumes to demand for the physical product for gas, power and coal over time (establish benchmarks based on other global markets) | No comment | |
| | Increase in gas secondary trading volumes, for commodity and transportation | No comment | |
| | Access to efficiently priced fuel and transport | No comment | |
| | Increase transparency of metrics on fuel reserves and prices (coal, gas, hydro) | No comment | |
| | Commodity costs competitive with international spot price less liquefaction or shipping | No comment | |
| | increased transparency in gas transport costs | No comment | |
| Innovation is incentivised and enables value from new technologies | Support | These must be technologically neutral, efficient, and not lead to barriers to entry outcomes. | |
| Creation of value streams for the efficient delivery of system security services (e.g. inertia, fast frequency response) | Support | | |
| Increased uptake of service provision from DSR & DER (volume year on year) | Support | | |
| Increased transparency of information and knowledge sharing from proof of concept trials | Support | | |

| Efficient and timely investment in networks | | | |
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| Investment solutions are optimal across all resources | Congestion levels are not material or are being examined through RIT-T/Ds | Support | This needs to be monitored on an on-going basis, and potentially prioritised. |
| | Reduction in market impacts (costs) of inter- and intra-regional constraints | Support | AEMO has undertaken this role in the past and NSPs work with AEMO to minimise such outcomes. |
| | X% of smart meter customers on cost reflective network tariffs by jurisdiction | Theoretical support | The ESB must be mindful that with the new Transmission Connection and Planning Arrangements rule changes with an extended period for negotiation and a number of recent system strength rule changes this may be a difficult goal. In addition, there has also been a step-change in the number of connections being assessed that will make this metric extremely challenging. There may be also be an alternative metric focussing on measuring projects identified in the ISP. |
| | Reducing generation connections times from project commitment | Support | |
| | ISP/RITs consider non-network solutions and investments are undertaken where in customer benefit | Support | This should already be taking place in RIT-Ts for feasible non-network options. Customer benefit was the original premise of the Regulatory Test (subsequently superseded by the RIT-T/D and there is some momentum to amend the RITs to re-include these concepts. This latter concept should be further examined. |
| Efficient regulation of monopoly infrastructure | Cost of capital for new network investments in line with international standards | Not Supported | This may see a reduction in cost of capital viz a viz lower RoR overseas? Is this already considered by the AER for regulated network investments for comparative purposes? |
| | Development of, and then maintenance or improvement in, performance and productivity metrics on regulated networks - e.g. network productivity, utilisation, affordability, reliability, customer engagement and/or connection | Support | Will need to be explicit that some of these measures may be influenced by factors beyond the control of the networks. In utilising incentive-based regulation some of these issues are also addressed. |
| Networks incentivised to be efficient platforms for energy services | Increased integration of DER in distribution networks | Support | This must be managed for optimal outcomes. What are the tangible measures being contemplated? Integration needs to be efficient, not just involve the increases in total numbers of DER options utilised. |
| | Increased transparency in prices and obligations for DER connecting and using the distribution network | Theoretical support | Who will administer - AER? AEMO? Are there any ACCA issues? |
| | Time taken to consider and process rule changes and regulatory approvals in line with best practice international regulatory processes | Support | A clear enunciation of best practice overseas processes would be extremely helpful for comparative purposes. |