

28 November 2018

Dr Kerry Schott AO  
Chair  
Energy Security Board  
via email: [info@esb.org.au](mailto:info@esb.org.au)

## **Strategic Energy Plan – Consultation on proposed metrics**

Dear Dr Schott,

Thank you for the opportunity to comment on the Energy Security Board's proposed metrics to support a Strategic Energy Plan (SEP) released on 12 November.

Energy Networks Australia (ENA) is the peak national body representing Australia's gas distribution and electricity transmission and distribution companies. With more than 16 million customer connections across the nation, Australia's energy networks provide the final step in the safe, reliable delivery of gas and electricity to virtually every home, business and industry in the country.

Network businesses strongly support the goal of development of a Strategic Energy Plan and supporting movement to implementation of the Finkel Report recommendations and wider energy market reforms.

The current consultation on proposed metrics to inform COAG Energy Council of progress on energy market reform which delivers benefits to customers can play an important role in ensuring policy makers, market institutions and stakeholders are aligned on measuring the achievement of agreed COAG policy objectives.

In many cases the proposed metrics and objectives are directional in nature. For example, a metric of increasing the number of market participants is specified. While strongly supporting the goal of greater retail competition, we note a simple increase in participant numbers may not of itself result in an improved consumer outcome. ENA would suggest that wherever feasible proposed metrics should be neutral and the reporting against the measure should separately assess and analyse whether achievement of the metric is positive or not for consumers by reference to fuller contextual information and evidence.

### **Relationship to binding National Electricity and Gas Law Objectives**

The Energy Council and ESB may wish to further consider and clarify with stakeholders the appropriate relationship between the proposed objectives and metrics and the binding National Electricity and Gas Law objectives.

The NEO/NGO and other energy law provisions provide a binding framework within which market institutions and independent regulatory bodies are required to exercise their functions and discretions.

To the extent that the proposed SEP objectives and metrics are intended to represent advisory guidance to these bodies, this relationship should be clarified by the Energy Council.

I note that an important element of the strength and quality of Australian energy market governance is actual and perceived regulatory independence, and regulatory and rule-making decisions being made against a stable legislative framework with binding guiding objectives.

### **Need for more outcomes and metrics to support energy market governance**

The consultation paper notes that ESB considers 'strong but agile governance' underpins delivery of the five nominated high-level outcomes.

A range of policy reviews and regulatory developments over the past several years have highlighted the critical concern of ensuring improved governance, role clarity, institutional cross-coordination and predictability in Australian energy markets.<sup>1</sup> Most recently, an independent survey of investors has highlighted that an emerging constraint to required private investment in the full energy supply chain is growing perceptions of higher political and regulatory risks in the Australian energy market and regulatory context.<sup>2</sup>

For this reason, Energy Networks Australia considers the Strategic Energy Plan, its objectives and metrics need to explicitly target and measure improving the stability, quality and certainty of regulatory frameworks underpinning energy infrastructure.

This would be an approach consistent with the current *Australian Energy Market Agreement* (Clause 2(b)) commitments to:

- (i) *strengthen the quality, timeliness and national character of governance of the energy markets, to improve the climate of investment;*
- (ii) *streamline and improve the quality of economic regulation across energy markets to lower the cost and complexity of regulation facing investors, enhance regulatory certainty, and lower barriers to competition;*

Metrics on these matters could include, for example, all energy market institutions and bodies (COAG EC, ESB, AEMC, AER, AEMO) having published and coordinated priorities, work-programs, and outcomes, with these developed in consultation with stakeholders, underpinned by binding corporate governance requirements.

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<sup>1</sup> These include the Finkel Review, and the Vertigan Review specifically focused on energy market governance.

<sup>2</sup> See [Australian Infrastructure Investment Report 2018](#)

A further metric suggested is increased stakeholder confidence in predictable and accountable regulatory decisions being reached independently, on a transparent evidentiary basis.

Energy Networks Australia has provided detailed feedback and suggestions on the proposed in **Attachment A** which we are keen to further discuss with the ESB

Yours sincerely,



Andrew Dillon  
**Chief Executive**

**Attachment A – Detailed ENA Comments – Proposed metrics – Strategic Energy Plan**

Outcome: affordable energy and satisfied consumers		
<i>Objectives</i>	<i>Proposed metrics</i> [Suggested changes]	<i>Energy Networks Australia Comments</i>
<p><b>Energy is increasingly affordable for all consumers, supported by adequate consumer protections and access to dispute resolution</b></p>	<ul style="list-style-type: none"> <li>• Reduction in energy spend as a % of household disposable income</li> <li>• C&amp;I customers' energy costs are competitive with international counterparts</li> <li>• X% consumer disputes/complaints resolved by retailers/ombudsman schemes <i>that relate to price, retail rates and other retail bill cost elements</i></li> <li>• <i>[Suggested metric] Nationally consistent consumer protection and access dispute regime adopted by and in force in all jurisdictions</i></li> </ul>	<ul style="list-style-type: none"> <li>• This metric is dependent on both retail energy rates, energy usage and broader household income and taxation trends. It may be better anchored to monitoring the trend in energy spend anchored from a certain year and targeted to an assumed household type (vulnerable, median usage).</li> <li>• International cost competitiveness - this indicator is a function of energy efficiency for the C&amp;I customer and also a function of energy mix and network costs which in Australia cover vast distances and are undergoing an energy transformation with uptake of renewables expected to outperform international markets.</li> <li>• <i>Query – unclear whether competitive in metric is designed to mean qualitatively comparable, the same, or within a range?</i></li> </ul>

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<p><b>Consumers are empowered to manage their demand and can access distributed energy and energy efficiency solutions</b></p>	<ul style="list-style-type: none"> <li>• <b>[Suggested metric] Penetration of smart metering or other demand related technologies (% of customers)</b></li> <li>• Increase in consumers accessing data related to their energy usage</li> <li>• Increased participation in wholesale demand response or energy efficiency programs year on year</li> <li>• <b>[Suggested metrics] Demand response MW available / total peak demand</b></li> </ul> <p><b>Suggest electricity metric – relating to how well metering competition is working</b></p> <p><b>% residential or C&amp;I customers with a competitively provided smart meter by state</b></p> <p><b>Average cost of metering services (MC costs) by residential or C&amp;I by state</b></p> <p><b>Average time to provide metering on connection or supply upgrades</b></p> <p><b>Number of competitive MCs in the electricity market</b></p>	<ul style="list-style-type: none"> <li>• <i>Query - Is this consumers access data metric summated for customer/agent accessing data from retailers and/or distributors?</i></li> <li>• <i>Query - Is consumers accessing their data the right metric, where third parties may do this at a consumers preference or request?</i></li> <li>• There are a number of metrics aimed at the consumer outcomes for network and retail efficiency but none on the effectiveness of metering competition</li> </ul>
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<p><b>Consumers are able to easily identify and secure the best deal for their circumstances</b></p>	<ul style="list-style-type: none"> <li>• [Amended metric] Percentage of consumers on better/best contracts</li> <li>• Increasing number of consumers using energy data and analytic tools (EME, switching sites, flipper sites) to make energy decisions</li> <li>• Consumers can switch retailers in “five clicks” or less and will be changed to their new provider in less than 2 business days</li> </ul>	<ul style="list-style-type: none"> <li>• The metric goes towards customer’s being <i>able</i> to identify and secure the best deal, not that they <i>do</i>. Suggest more metrics assessing the <i>ease</i> of switching if customers want to.</li> </ul>
<p><b>Vulnerable consumers are on suitable pricing plans, receiving concessions when needed, and can benefit from distributed energy and energy efficiency schemes</b></p>	<ul style="list-style-type: none"> <li>• 100% of vulnerable consumers on better/best market contracts</li> <li>• Clear hierarchy of easily accessible support and concession measures available for vulnerable consumers</li> <li>• Energy efficiency, solar and/or storage programs implemented in public housing where cost efficient</li> </ul>	

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<b>Outcome: Secure electricity and gas system</b>		
<b><i>Objectives</i></b>	<b><i>Proposed metrics</i></b>	<b><i>Energy Networks Australia Comments</i></b>
<p><b>Markets operate safely, securely and efficiently, under full range of operating conditions, with minimal intervention</b></p>	<ul style="list-style-type: none"> <li>• Electricity market operates within power system security standards (frequency operating standard) and technical requirements (voltage, temperature, current limits)                             <ul style="list-style-type: none"> <li>○ Market operated in secure state for greater than X% of time each year</li> <li>○ System wide outages (aggregation of network and any generation related) less than X% per year</li> <li>○ System interventions &lt; X per year</li> </ul> </li> <li>• Gas system operates securely within technical operational parameters</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Query - Is it intended that AEMO provide these stats by jurisdiction?</i></li> <li>• <i>Query – Is it intended that the metrics would represent a new target outside and above existing power system reliability and security targets, or simply report levels of compliance?</i></li> <li>• <i>Query - which technical operational parameters in the gas system are the desired target measures?</i></li> </ul>

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<p><b>System planning and development is informed by clear and transparent rules</b></p>	<ul style="list-style-type: none"><li>• Measurable progress against a roadmap setting out development and implementation of solutions to identified system and market issues</li><li>• Review of National Electricity Rules conducted by ESB by 1 July 2020</li><li>• Establishment of the Cyber-Security Framework and implementation for high and medium risk participants within established timeframes</li><li>• Adaptation processes are in place to upgrade energy infrastructure to deal with increasingly severe weather events and cyber-security risks</li></ul>	<ul style="list-style-type: none"><li>• <i>Query - Is this intended to be rules development and implementations more generally or ISP actionable projects and implementations by the ISP preferred dates?</i></li><li>• <i>Query - ESB Rules Review, is this referring to the ISP implementation within the rules and the corresponding transmission planning and investment processes? What exactly is the scope of the Rules review?</i></li><li>• ENA queries the adaptation measure, a Cyber security Framework by participant may not address all risks associated with rules based service providers that may eventually switch load and also there needs to be consideration of cost vs risk and the ability to recover costs.</li></ul>
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**Attachment A – Detailed ENA Comments – Proposed metrics – Strategic Energy Plan**

<b>Outcome: Reliable and low emissions electricity and gas supply</b>		
<b><i>Objectives</i></b>	<b><i>Proposed metrics</i></b>	<b><i>Energy Networks Australia Comments</i></b>
<p><b>Electricity and gas sectors efficiently deliver at least their share of emissions reduction target/s while ensuring reliable supply</b></p>	<ul style="list-style-type: none"> <li>• Electricity and gas sector emissions reduce in line with the sectors’ share of national emission reduction target/s</li> <li>• Reliability standard achieved</li> <li>• Annual reduction in number of times RERT procured and activated <b>and cost</b></li> <li>• <b>[Suggested metric – Number of times RERT procured and activated and cost]</b></li> <li>• Development of, and then maintenance of or improvement in, key metrics:               <ul style="list-style-type: none"> <li>○ Strategic reserves</li> <li>○ Flexibility and dispatchability</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• These stats might be best provided by AEMO</li> <li>• <i>Query - RERT is an emergency intervention mechanism, as is POLR for the benefit of the market. Suggest it is better to track use and cost of interventions</i></li> </ul>

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<p><b>Investors efficiently manage risk to support investment, operation, retirement and innovation decisions</b></p>	<ul style="list-style-type: none"><li>• Accurate and transparent market information on forecast demand, generation investment and generation withdrawal to inform market participants (and potential participants)</li><li>• Average forward swap and cap contract prices for electricity in line with the efficient levelised cost of energy</li><li>• Cost of capital for new electricity and gas market investments are competitive with international standards</li><li>• All market participants comply with any rules around notice of closure</li></ul>	<ul style="list-style-type: none"><li>• <i>Query – Further clarity on how this would be assessed, against which standard and by whom would be informative?</i></li></ul> <p><i>e.g. what does cost of capital 'competitive' with international standards mean? Below? At the same level when equalising for differences in risk free and sovereign risk assessments?</i></p>
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<b>Outcome: Effective development of open and competitive markets (where appropriate)</b>		
<b><i>Objectives</i></b>	<b><i>Proposed metrics</i></b>	<b><i>Energy Networks Australia Comments</i></b>
<b>Wholesale and retail markets are competitive and deliver efficient outcomes for consumers</b>	<ul style="list-style-type: none"> <li>• Retail and wholesale prices over time (contract and average spot) reflect the long run marginal cost of producing electricity and gas</li> <li>• Market concentration continues to decline across all regions</li> <li>• Reduction in # of customers on standing offers over time</li> <li>• Increase in new market participants year on year</li> </ul>	<ul style="list-style-type: none"> <li>• New market participants year on year does not mean that competition is effective, as ESC has noted it may just serve to increase churn and customer retention costs for very little customer benefit. Similarly a retailer exiting the market in a ROLR event may be a good thing. Victoria has the highest level of market participants and the highest margin.</li> </ul>
<b>Deep, liquid and transparent financial markets for electricity and gas and related services</b>	<ul style="list-style-type: none"> <li>• Increase in transparency of contract markets (prices, duration) for products including swaps, caps, PPAs and demand response</li> <li>• 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)</li> <li>• Increase in gas secondary trading volumes, for commodity and transportation</li> </ul>	

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<b>Access to efficiently priced fuel and transport</b>	<ul style="list-style-type: none"><li>• Increase transparency of metrics on fuel reserves and prices (coal, gas, hydro)</li><li>• Commodity costs competitive with international spot price less liquefaction or shipping</li><li>• Increased transparency in gas transport costs</li></ul>	
<b>Innovation is incentivised and enables value from new technologies</b>	<ul style="list-style-type: none"><li>• Creation of value streams for the efficient delivery of system security services (e.g. inertia, fast frequency response)</li><li>• Increased uptake of service provision from DSR &amp; DER (volume year on year)</li><li>• Increased transparency of information and knowledge sharing from proof of concept trials</li></ul>	

**Attachment A – Detailed ENA Comments – Proposed metrics – Strategic Energy Plan**

<b>Outcome: Efficient and Timely investment in Networks</b>		
<b>Objectives</b>	<b>Proposed metrics</b>	<b>Energy Networks Australia Comments</b>
<p><b>Investment solutions are optimal across all resources</b></p>	<ul style="list-style-type: none"> <li>• Congestion levels are not material or are being examined through RIT-T/Ds</li> <li>• Reduction in market impacts (costs) of inter- and intra-regional constraints,</li>   <li>• X% of smart meter customers on cost reflective network tariffs by jurisdiction</li>   <li>• Reducing generation connections times from project commitment</li> <li>• [Suggested metric - Spare MW capacity for new connections by region, cost of connection per MW (less generation technology costs)]</li> <li>• [Suggested metric - .Network pricing reform - % of small customers on non-flat network tariffs]</li>   <li>• ISP/RITs consider non-network solutions and</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Query – What is ‘material’ congestion and how is this assessed? Depending on the definition adopted, seeking removal of all material congestion could lead to inefficient increases in costs for customers.</i></li>   <li>• <i>Query practicality in a more interconnected grid where diversification of renewable supply is encouraged, suggest metric is better as more cost stability on bills for customers charged directly</i></li>   <li>• The ISP (or NTNDP) and RITs need to consider non-network solutions, this is superfluous. RIT process is subject to dispute and also AER review for compliance</li> </ul>

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	<p>investments are undertaken where in customer benefit</p>	<ul style="list-style-type: none"> <li>• <i>Query – This is an existing requirement which AER tracks compliance with – is anything further/additional intended than collation of this information?</i></li> </ul>
<p><b>Efficient regulation of monopoly infrastructure</b></p>	<ul style="list-style-type: none"> <li>• Cost of capital for new <b>and existing</b> network investments in line with international standards</li> <li>• Development of, and then maintenance or improvement in, performance and productivity metrics on regulated networks - e.g. network productivity, <b>utilisation</b>, affordability, reliability, <b>customer engagement</b> and/or connection</li> <li>• <b>[Suggested metric] [Separation of rule-making and economic regulatory functions maintained]</b></li> <li>• <b>[Suggested metric] Increased stakeholder confidence in predictable and accountable regulatory decisions being reached independently, on a transparent evidentiary basis.</b></li> <li>• <b>[Suggested metric] All energy market institutions and bodies (COAG EC, ESB, AEMC, AER, AEMO) having published and coordinated priorities, work-programs, and outcomes, with</b></li> </ul>	<ul style="list-style-type: none"> <li>• AER has just undergone extensive consultation on the Rate of Return guidelines, and been presented with evidence that returns are not in line with international standards</li> <li>• A failure to provide adequate return on capital for existing assets will lead to inefficient outcomes for consumers through distorted capital and operating investment signals – it is insufficient to just focus on new investments</li> <li>• Bare measures of network utilisation are a crude and ineffective measure for a two way grid in which connection and capacity are critical drivers of customer value – a 99% utilised grid with an inability to allow customers to connect in a timely manner, or access wholesale value will not provide good customer outcomes, or efficient whole of system outcomes.</li> <li>• Similarly building transmission as an enabler will mean that as coal retires</li> </ul>

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	<p>these developed in consultation with stakeholders, underpinned by binding corporate governance requirements</p>	<p>existing local transmission will have lower utilisation given that it is not supporting base load to large load centres, rather it will support load to local communities. In addition about twice the level of renewables is required to replaced retiring coal plants given their intermittent nature, this means more transmission is required which will lead to lower measured utilisation</p> <ul style="list-style-type: none"><li>• Transformation of the transmission network to integrate renewables into the grid will involve network costs.</li><li>• As customer engagement approaches are in a constant state of evolution, refinement and feedback, it may not be effective to develop standardised metrics for customer engagement –this has the potential to promote a focus on the metric, versus constant innovation and improvement</li><li>• Affordability is better measured as the % change in retail tariffs which should reduce with more competition in the wholesale market.</li><li>• There is an apparent gap in the metrics around governance, accountability, roles and transparency of the market institutions and regulatory bodies themselves. This is a critical missing</li></ul>
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		<p>component which will underpin whether efficient regulation and consumer benefits will occur.</p>
<p><b>Networks incentivised to be efficient platforms for energy services</b></p>	<ul style="list-style-type: none"> <li>• Increased integration of distributed energy resources in distribution networks</li> <li>• Increased transparency in prices and obligations for distributed energy resources connecting and using the distribution network</li> <li>• Time taken to consider and process rule changes and regulatory approvals in line with best practice international regulatory processes</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Query – Nature of measure unclear. Guiding principle should be an efficient level of integration</i></li> <li>• This does not seem to relate to objective – arguably related to above objective.</li> </ul>