



**EnergyAustralia**

LIGHT THE WAY

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## ESB Consultation paper – Consultation on Draft Metrics for the Strategic Energy Plan

EnergyAustralia is one of Australia's largest energy companies with approximately 2.6 million electricity and gas accounts in New South Wales, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own and operate a multi-billion-dollar energy generation portfolio across Australia, including coal, gas, solar, wind and battery assets in the National Electricity Market (NEM).

EnergyAustralia welcome the opportunity to comment on Draft Metrics to form part of the Energy Security Board's Strategic Energy Plan. We consider that the plan, coupled with the ESB's Health of the NEM report can play a vital role in guiding the development of the Australia's energy markets.

### Regulatory burden

In its review of the electricity market, the ACCC discussed the increasing regulatory burden across the energy sector and its impact on customer bills<sup>1</sup>. EnergyAustralia regards that this consideration of metrics (and necessary data sources to inform them) a valuable opportunity to review existing reporting requirements to market bodies (i.e. AER, AEMO, AEMC) to ensure alignment, identify synergies, reduce costs for customers as well as to identify efficiencies.

Whilst acknowledging that this process is well advanced, the ESB should look to maximise the existence of current reporting requirements and harness it to deliver meaningful metrics to policy makers. Data not found to be relevant to a metric should be reconsidered as a reporting obligation. Any metrics the ESB agrees on should not present new reporting obligations on market participants. If it does, it should replace an existing reporting obligation (i.e. a net zero regulatory impact).

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<sup>1</sup> Australian Competition and Consumer Commission, 'Retail Electricity Pricing Inquiry—Final Report', July 2018, p.226

## **Fit for purpose metrics**

Our specific comments on the proposed metrics are attached at Attachment A and have been framed to balance the objectives they seek to meet with the likely regulatory impost they would create.

EnergyAustralia also supports the feedback provided by the Australian Energy Council to the ESB draft metrics.

We also stress the importance for the ESB to prepare accurate and reasonable explanatory commentary to support the metrics – it is important for these metrics not to be viewed in isolation and that evolution of the market and/or the impact of government and regulatory intervention are appropriately explained.

We also recommend that metrics are somewhat 'future-proofed' so metrics are not obsolete and remain relevant in the immediate future. For example, having a metric pertaining to how many customers are on a 'best offer' may soon have a different regulated meaning in different jurisdictions.

Finally, we note that in several metrics the ESB has identified a single source of data to inform that metric<sup>2</sup>. In these circumstances we recommend that the body responsible for collating that data consult with stakeholders to ensure it is captured appropriately.

## **Strong but agile governance**

EnergyAustralia welcomes the ESB's inclusion of outcome six 'Strong and agile governance' in its most recent draft. The individual metrics within that are a reasonable base but unfortunately do not go far enough to address to some major drivers of costs to customers (many of which that are in the hands of policy makers).

We recommend that the following objectives and metrics be added:

- That energy policy is stable and aligned with other policy areas (e.g. climate change, housing, tax) as evidenced by:
  - Policies that can endure election cycles.
  - The number of reviews into the energy sector decreases year-on-year.
- That regulatory costs are minimised and government intervention in the energy sector compliments the NEM design and investment by the private sector, as evidenced by:
  - A steady decline in regulatory obligations for market participants (in both number and cost).
  - Regulatory obligations being consistent across NEM jurisdictions to support inter-regional investment (i.e. Derogations are limited to unique circumstances only).

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<sup>2</sup> For example, Energy Consumers Australia Consumer Sentiment Survey

- Increasing alignment in government programs that impact the energy sector (e.g. concessions).
- Investment distorting policies reducing and where unavoidable are implemented in a targeted and time-limited manner.

If you would like to discuss this submission, please contact Tristan Menalda on 03 8628 1456 or [Tristan.Menaldavs@energyaustralia.com.au](mailto:Tristan.Menaldavs@energyaustralia.com.au).

Regards

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## Appendix 1 – EnergyAustralia’s Response to draft metrics

Contains EnergyAustralia response to key metrics only where EnergyAustralia has a view.

### 1. OUTCOME: AFFORDABLE ENERGY AND SATISFIED CONSUMERS

#### 1.1. Energy is increasingly affordable for all consumers, supported by adequate consumer protections and access to dispute resolution

| <i>Draft metrics</i>   | <i>Source</i>   | <i>ESB Notes</i>  | <i>EnergyAustralia comment</i>   |
|--|---|---|--|
| Representative domestic retail tariffs in each NEM-region    | <i>AER Annual report on compliance and performance of the retail energy market and AEMC Residential Electricity Price Trends Report</i> | Provides estimated standing and market offer for ‘representative’ consumer in each NEM-region. Trend over time gives some indication of change in affordability. AER reports on estimated annual electricity and gas costs by region. Average electricity consumption and median offers (standing offer and market offer) are reported. AEMC reports on estimated tariffs and annual bills based on representative customers in each region and presents forward estimates for tariffs. | This will be an important metric where the AEMC could review the cost reflectivity of the Default Market Offer and Victorian Default Offer. It will be important that both flex as underlying costs change. This metric could help ensure prices are not constrained and retailers are able to recover a fair return without threatening competition, while also ensuring prices are not too high where consumers would be paying more for electricity than they otherwise should. |
| Customer perceived value for money                           | ECA Energy Consumer Sentiment Survey  | Reflects consumer sentiment which provides a perspective which may be missed by aggregated or ‘representative’ values   | This is highly speculative metric and susceptible to many external factors so recommend it not be used. It is unclear how “perception” can be a metric. The actual metric should be whether customers are receiving value for money, which the previous metric can assess.   |
| Low-income high-cost: Number of households with income below | Department of Social Services <i>Household</i>  | Intended to capture a measure of ‘energy stress’, as above metrics do not adequately capture experience of consumers with vulnerabilities. Noted that using ‘energy needs’ over actual energy consumption is preferable as actual energy  | It is important to understand how many households may fall into energy poverty. The challenge is how best to measure this in a way that  |

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| poverty line (or alternatively lowest income quintile) which spend above the median level on energy. | <i>Income and Labour Dynamics in Australia</i> (HILDA)  | consumption does not capture households which forego consumption due to cost. An appropriate methodology for determining 'energy needs' would need to be developed and agreed. HILDA survey also includes questions on difficulty paying electricity and gas bills and difficulty heating, which should be included in assessment. Difficulty cooling is also relevant and could be requested to be added to the HILDA survey.          | provides a reasonable barometer of the proportion of spend energy makes up for a household. In doing so this measure needs to ensure it does not infer issues of stagnant wage growth or insufficient social security payments, as problems for the energy sector to resolve. It is a matter for governments to ensure those remain sufficient to cover the cost of living.  |
| Representative C&I energy prices. Comparison with international counterparts                         | Work with large C&I customers to develop benchmarks and survey required to report against this metric. International Energy Agency database | Shows how energy costs as an input to business activity changes over time. This metric is particularly important for assessing the competitiveness of industries which are energy-intensive and trade-exposed. Understood that there is large variation in C&I energy prices, particularly between transmission connected and other C&I customers. Separate benchmarks to be developed for these two categories to the extent possible. | Useful to know but challenges in getting a metric that accounts for diversity in C&I customers.<br><br>EnergyAustralia is cautious about international comparisons as they can be highly sensitive to assumptions, particularly exchange rates, as well as reflect different wholesale fuel types and costs. If it is to be used it should be done on a purchasing power parity basis to remove the variance that may raise from fluctuations in exchange rates.<br><br>Further consultation would be necessary if this metric is to progress. |

## 1.2. Consumers are empowered to manage their demand and can access distributed energy and energy efficiency solutions

| <b>Draft metrics</b>          | <b>Source</b> | <b>ESB Notes</b>  | <b>EnergyAustralia response</b>   |
|-------------------------------|---------------|---|---|
| % customers with smart meters | AER           | Smart meter installed may be a pre-requisite to energy management systems. Gives an indication of the extent to which consumers have the ability to access demand management technologies and cost reflective tariffs. However, smart meter technology could be leap-frogged. Is there a better metric? | This metric needs to be treated with caution for several reasons: <ol style="list-style-type: none"> <li>1. Just because a customer has a smart meter does not mean they do anything with it (i.e. Victoria).</li> <li>2. Technology is increasingly bypassing the meter so may not capture customers activity accurately.</li> </ol> |

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| Economy wide energy intensity: energy consumption/GDP | ABS Energy Account | Trend shows whether energy productivity of the economy is improving over time. Noted by stakeholders that caution required in analysing whole of economy intensity figures.<br>Two year reporting lag on ABS Energy Account. | Understanding the energy intensive nature of the economy is important to observe how the nature of industries in our economy change overtime. However, not sure what it tells you about how well the NEM is functioning to meet the needs of consumers? |
|---|--------------------|--|---|

### 1.3. Consumers are able to easily identify and secure the best deal for their circumstances

| <i>Draft metrics</i>  | <i>Source</i>                 | <i>ESB Notes</i>   | <i>EnergyAustralia response</i>  |
|---|-------------------------------|--|--|
| Consumer confidence in ability to make choices about energy products and services | ECA Consumer sentiment survey | Currently reported by ECA, but does not specifically go to use of tools or data as the metric was initially intended.  | Understanding consumer confidence is helpful. Equally important is how that confidence compares with experience in other industries. Perhaps some 'Mystery Shopper' research would assist.   |
| % customers on best three market offers by retailer                               | Request data from retailers   | Intended to indicate whether customers are engaging in the market to secure good/best deals. Noted that which deal is 'best' may vary depending on customer usage.<br>AER reports % on standard vs market offers, but there is a wide spread of market offers. | Do not support metric in its current form as it is ambiguous and be data intensive to obtain. What is the 'best offer' will differ from customer to customer. This gets particularly challenging talking across customer segments (i.e. residential, SMEs, C&I). Also it depends how long market offers are in market for. Products start and finish all the time, so for any given point in time a very competitive offer may have only had a short window to attract customers and this would suggest customers are not access the "best deals" when in fact they just haven't been given the time to. |

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|  |                                 |   | Better metrics may relate to churn activity (e.g. customers that have switched in the past 2 years, number of customers on SOTs).   |
| # unique hits on government supported energy comparison websites and number of visitors that complete a search plan. | AER and state website operators | Measure of how actively consumers are engaging in the retail market.  | What is meant by “government supported”? Does that just mean <i>Energy Made Easy</i> and <i>Victoria Energy Compare</i> ?<br><br>Metrics should not direct traffic to commercial comparator sites.  |
| How easy it is to switch (e.g. ‘customers can switch in 5 clicks or less’). Most appropriate metric TBD.             | Energy Charter reporting        | Customer friction/switching metric is a measure of how easy it is for a customer to switch retailers if they are unhappy with their service. Low barriers | Of a survey of over 23,000 EnergyAustralia’s customers, our online sign up experience rated 4.5 out of 5 stars. Despite ongoing efforts to refine and improve this experience the customer clicks required is between 9 and 30. This is largely impacted by the large number of regulatory obligations related to a customer sign up process (e.g. life support, concessions, green offers). We do not consider that a specific metric is necessary and can be incorporated into 1.3.1 (i.e. consumer confidence in ability to make choices...) |

**1.4. Vulnerable consumers are on suitable pricing plans, receiving concessions when needed, and can benefit from distributed energy and energy efficiency schemes**

| <b><i>Draft primary-metrics</i></b>                      | <b><i>Source</i></b>                   | <b><i>ESB Notes</i></b>   | <b><i>EnergyAustralia response</i></b>   |
|--|--|---|--|
| % hardship customers on best market contracts            | Request data from individual retailers | AER reports number of customers on hardship and average level of debt upon entering hardship scheme.                  | As above, defining ‘best’ offer will vary by customer. Existing reporting to AER on hardship programs should provide ample data for useful metrics (e.g. number of customers in hardship programs, average debt upon entry and exit are likely best indicators). |
| % people who are eligible for concessions on concessions | TBD                                    | NSW have recently done this analysis (reportedly a big job) but unlikely to be available from every state every year. | This metric can be provided but again not sure what it tells you about how well the energy sector is meeting the needs of concession card  |

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|   |  |   | holders. All it will tell you is how many households are on concessions across the NEM.   |
| % public housing with access to energy efficiency, solar and/or storage programs. | Department of the Environment and Energy | This metric has overlap with Finkel recommendation 6.6: <i>COAG Energy Council should engage with relevant portfolio areas including housing, and with state, territory and local governments, to identify ways to improve access to DER and energy efficiency for low income households.</i><br>Department of the Environment and Energy is undertaking gap analysis and planning for future work in this space. | What is the dimension of public housing? Number of buildings? Tenants? How is “access to” defined? Are these federal/ state/ local government programs?<br><br>In any case, a significant portion of vulnerable customers live in private rentals so would not be captured. |

## 2. OUTCOME: SECURE ELECTRICITY AND GAS SYSTEM

### 2.1. System planning and development is informed by clear and transparent rules

| <b>Draft metrics</b>  | <b>Source</b>          | <b>ESB Notes</b>   | <b>EnergyAustralia response</b>  |
|---|------------------------|--|--|
| Progress towards developing and maintaining a roadmap which identifies emerging system and market issues.   | Qualitative discussion | Intended to capture work underway to address emerging system security challenges.<br>Requires confirmation that a roadmap (or similar) will be developed and maintained. | This is not a metric. This is an objective.  |
| Number of adaptation processes in place to upgrade energy infrastructure to deal with increasingly severe weather events and cyber-security risks | AEMO                   | Intended to measure system planning in place to address future climate-related security threats.   | Not sure numerous “adaptation process” is an indicator of energy security, It is also difficult to determine what is a ‘severe weather event’ unless it is defined in planning standards or elsewhere. |

### 3. OUTCOME: RELIABLE AND LOW EMISSIONS ELECTRICITY AND GAS SUPPLY

#### 3.1. Electricity and gas sectors efficiently deliver at least their share of emissions reduction target/s while ensuring reliable supply

| <i>Draft metrics</i>   | <i>Source</i>   | <i>ESB Notes</i>  | <i>EnergyAustralia response</i>               |
|--|---|---|---|
| Amount of unserved energy (with reference to reliability standard) | AEMO/<br>Reliability Panel<br><i>Annual Market Performance Report</i> | Measure of reliability which indicates whether generation capacity was adequate to meet reliability standard in a given year. | Should be the primary metric for reliability. |

## 4. OUTCOME: EFFECTIVE DEVELOPMENT OF OPEN AND COMPETITIVE MARKETS

### 4.1. Wholesale and retail markets are competitive and deliver efficient outcomes for consumers

| <i>Draft metrics</i>   | <i>Source</i>   | <i>ESB Notes</i>   | <i>EnergyAustralia response</i>  |
|--|---|--|--|
| Average forward swap and cap contract prices for electricity in line with LRMC of new entrant, by region where available | ASX data<br>Publicly available LRMC estimates by e.g. CSIRO | Forward prices significantly above LRMC suggest opportunities for new entrant generators. Lack of new entrants under these conditions may indicate the presence of additional barriers to entry. | This metric as drafted will have limited value as it will only measure a single point in time and take little account for external factors (e.g. Govt policy).<br><br>CSIRO and other estimates of LRMC are annual, national, based on a range of assumptions (esp. fuel price, utilisation, risk and capital cost reductions over time) and unlikely to match the expectations in contract prices.<br><br>Suggest removing. |

### 4.2. Innovation is incentivised and enables value from new technologies

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|--|---|---|---|
| Number of projects and amount of funding for RD&D by governments | ARENA Annual Report<br>State based RD&D initiatives | Intended to capture the extent to which knowledge sharing from proof of concept trials is occurring.<br>ARENA currently reports number of projects and amount of funding across: Research and Development, Study, Demonstration, Deployment in their Annual Report.<br>Limitation is that this metric does not capture all private sector RD&D – but many private sector initiatives are co-funded with government.<br>Consideration to be given as to whether this should be narrowed to focus only on energy system – e.g. spending on hydrogen export industry potentially not included. | R&D for R&Ds sake is not a valuable metric. How will private sector RD&D be captured? Perhaps this should be embedded into other metrics. |
|--|---|---|---|

## 5. OUTCOME: EFFICIENT AND TIMELY INVESTMENT IN NETWORKS

### 5.1. Investment solutions are optimal across all resources

| <i>Draft metrics</i>  | <i>Source</i> | <i>ESB Notes</i>   | <i>EnergyAustralia response</i>   |
|---|---------------|--|---|
| Congestion levels on electricity transmission/distribution networks and gas pipelines | AEMO/AER      | <p>High congestion could indicate that network capacity is insufficient.</p> <p>AEMO to report on congestion in transmission network.</p> <p>AER to report on utilisation data in distribution network (AER does not have access to congestion data in distribution network, but utilisation data is indicative).</p>  | <p>Note congestion is not necessarily a sign of inefficient outcomes. The cost of building out congestion may not outweigh the benefits.</p> <p>Under this heading, we recommend the ESB consider a measure that captures whether non-network solutions are proposed and chosen to deal with network constraints</p>  |
| % customers with retailer exposed to cost reflective network tariff                   | AER           | <p>Retailers which are exposed to cost reflective network tariffs have incentive to offer innovative solutions to help consumers manage their demand and costs. Network prices do not necessarily need to be passed directly onto customers, therefore the most relevant metric to assess is the proportion of retailers which are exposed to cost reflective network tariffs.</p> | <p>“Cost reflective” is a broad description. Suggest defining this as TOU, seasonal and demand/capacity tariffs.</p> <p>Will need to consider what ‘success’ looks like in this regard because there will be a natural tipping point where customers will be worse off under a cost reflective tariff. This may create a conflict with other metrics (particularly on affordability).</p> |
| Average generation connection time from project commencement                          | AEMO          | <p>Can be an indication of the timeliness of the connection process, which is important for economic efficiency as well as security and reliability.</p> <p>Need to consider definition of project commencement and to account for other factors that influence timeliness of connection.</p>  | <p>Unclear whether this is a useful metric in terms of network investment but may be useful for other purposes. As noted, different projects will have varying timelines.</p>   |

## 5.2. Efficient regulation of monopoly infrastructure

| Draft metrics  | Source  | ESB Notes  | <i>EnergyAustralia response</i>  |
|--|---|--|--|
| Regulated rate of return for new network investments relative to other regulated industries and risk free rate of return (e.g. 10 year Commonwealth Government security yield) | AER Rate of Return Instrument Statement   | Intended to assess whether regulated return in electricity/gas sectors is comparable to other regulated industries. Also relevant to assess change over time to reflect changes in debt funding costs. | Benchmark/ regulated rate of return is a useful metric but should also examine trends in 'actual' returns as this is more likely to indicate how the regulatory framework is performing i.e. outperformance by NSPs, or the extent of gaming   |
| Network productivity, utilisation, and reliability   | AER   | Poor productivity and utilisation could suggest there are untapped opportunities for greater system efficiency.  | These are relevant measures but potentially a lot of data here. Does the ESB intend to present data for all NSPs or in some aggregated form? Will network wide or locational data be presented? Disaggregated or network wide?   |
| Customer engagement of network service providers   | Qualitative discussion. Sources could include: ENA-ECA Customer Engagement Awards AER evaluation based on network determination process | Quantitative assessment not preferable as it may unintentionally promote a compliance based approach which may limit innovation in this area.  | There may be benefit (if it isn't being done already) for the AER/ ECA to undertake a survey of consumer representatives at each network price review, and potentially more often than this i.e. would customers benefit from ongoing engagement, not just at the time of price reviews? |

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| Time taken to assess network investment proposals in line with best practice international regulatory processes. | AER/qualitative discussion | Intended to assess whether NEM is in line with international best practice. | Assume these apply to RITs rather than network capex proposals. Note the AER's timelines are prescribed for all of these, with some extension/ flexibility for RITs. |
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