

28 November 2018

Dr Kerry Schott AO
Energy Security Board

By email: info@esb.org.au

Dear Dr Schott

Strategic Energy Plan consultation on proposed metrics

Thank you for the opportunity to provide comment on the proposed metrics for the Energy Security Board's Strategic Energy Plan.

The consultation paper states that the plan's aim is "ensure a clear strategic focus for the Energy Council's work and to provide clarity of direction to market bodies and market participants". On this basis, Hydro Tasmania welcomes the Energy Security Board's efforts to develop a Strategic Energy Plan which is a timely opportunity to help guide the energy sector's transformation.

The consultation document outlines five high-level outcomes, and associated objectives and metrics. Hydro Tasmania notes that the proposed outcomes have been given in principle support by the COAG Energy Council. Hydro Tasmania is concerned however that the central outcome focuses only on affordable energy and satisfied customers. Fundamental to the energy transformation is the need to reduce the electricity sector's emissions while also providing affordable and reliable supply. Hydro Tasmania therefore recommends that the central outcome needs to include each of the three elements of the 'energy trilemma' and could be worded as "Affordable, reliable and environmentally sustainable energy". In line with this recommendation, Hydro Tasmania proposes that the outcomes be modified as follows:

- **Affordable, reliable and environmentally sustainable energy (new central outcome).**
 - Affordable energy and satisfied consumers (as proposed in consultation paper, but moved to outside).
 - Secure and reliable electricity system and gas system (secure and reliable combined).
 - An environmentally sustainable energy system (now a separate outcome area to give it the same status as reliability and affordability).
 - Effective development of open and competitive markets (as proposed in consultation paper).
 - Efficient and timely investment in networks (as proposed in consultation paper).

The new outcomes would then be represented as per the figure below:

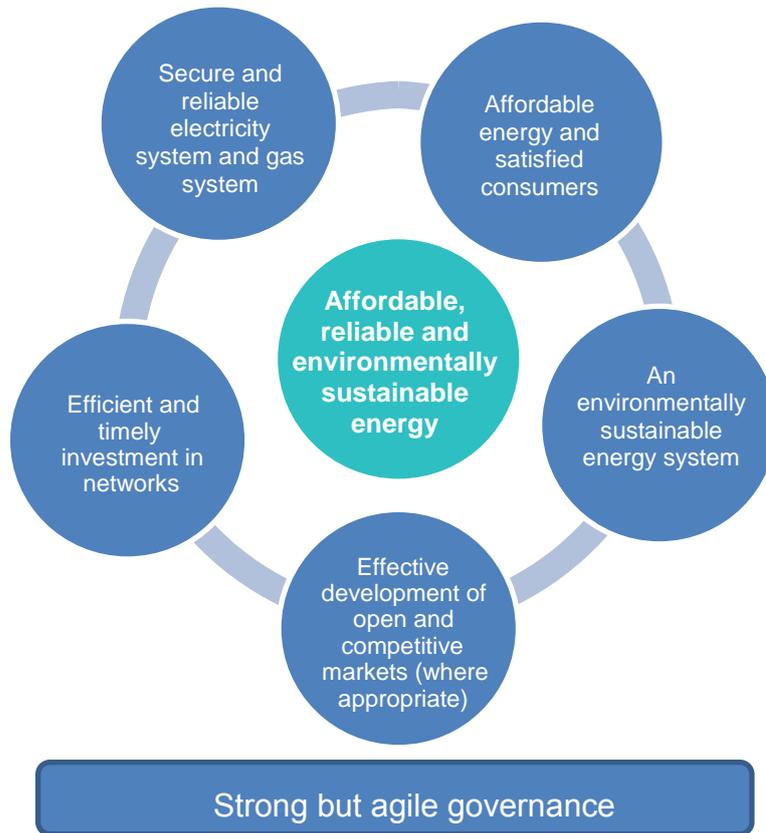


Figure 1. Proposed revised plan outcomes reflecting the central outcome of “affordable, reliable and environmentally sustainable energy”.

Hydro Tasmania provides further comments on the proposed objectives and metrics in the appended Attachment A.

Please contact Colin Wain (03 8612 6443, colin.wain@hydro.com.au) if you have any questions.

Yours sincerely



Steve Davy
CEO
Hydro Tasmania

Attachment B

Outcomes	Objectives and metrics
1. Affordable energy and satisfied consumers	<p>The “affordable energy and satisfied consumers” outcome proposes to include the following metric “Reduction in energy spend as a % of household disposable income”.</p> <p>Hydro Tasmania is of the view that this metric is likely to be influenced by a range of factors not directly related to the cost of energy including changes in disposable income and concession frameworks. Consequently, while it does reflect relative changes in capacity to pay, it does not measure the significance or materiality of the change.</p> <p><i>Alternative metrics</i></p> <p>Hydro Tasmania notes that the European Union (EU) has identified several alternative metrics to guide its decision making which could be a useful reference in developing an appropriate measure for Australia¹.</p>
2. Secure and reliable electricity system and gas system	<p>The consultation paper incorporates 'security' and 'reliability' under two separate outcome areas. Hydro Tasmania proposes that these be brought together under a single outcome area - 'secure and reliable electricity system and gas system'.</p> <p>In line with this, Hydro Tasmania proposes integrating the existing the objectives and metrics used under the ‘Secure electricity and gas system’ and the reliability related metrics from the original outcome 'Reliable and low emissions electricity and gas supply</p> <p>However, Hydro Tasmania does not support the proposed metric 'Average forward swap and cap contract prices for electricity in line with the efficient levelised cost of energy'. Contract prices are reflective of many factors other than the underlying cost of supply.</p>
3. An environmentally sustainable energy system	<p>Hydro Tasmania believes that emission reductions are a fundamentally important aspect that already (and will continue to) drive investment decisions in Australia’s energy sector. Consequently, Hydro Tasmania suggests that the proposed emissions related metric “Electricity and gas sector emissions reduce in line with the sectors’ share of national emission reduction target/s” is vague and does not provide clear direction to support this fundamental aspect of the Strategic Energy Plan. To strengthen this metric Hydro Tasmania proposes that its importance be elevated by assigning it to a dedicated outcome area ('An environmentally sustainable energy system') and</p>

¹ EU Commission report
<https://ec.europa.eu/energy/sites/ener/files/documents/Selecting%20Indicators%20to%20Measure%20Energy%20Poverty.pdf> (page 8)

	<p>that the corresponding metric be changed to “Actual and forecast electricity and gas sector emissions are demonstrably on track to achieve at least their proportionate share of national emissions reduction targets”.</p> <p>Many large generators and retailers in Australia recognise that the sector will need to be at or near zero emissions by the middle of the century. Hydro Tasmania would support a metric that tracks progress towards a very low or zero emissions sector.</p>
<p>4. Effective development of open and competitive markets</p>	<p>The ESB has proposed the metric “Retail and wholesale prices over time (contract and average spot) reflect the long run marginal cost of producing electricity and gas” to assess effectiveness of competitive markets. Hydro Tasmania does not support this proposed metric.</p> <p>As noted previously, prices reflect a wide range of economic and non-economic factors, rather than only long run marginal costs. It may be more appropriate to develop a metric, or range of metrics, that capture the level of competitiveness within the electricity and gas markets. These metrics should also be flexible enough to appropriately assess the unique attributes of each region in the NEM.</p> <p>In addition, Hydro Tasmania is conscious that the ACCC and AER are undertaking processes to consider the effectiveness of wholesale and retail markets. Hydro Tasmania recommends that the ESB consider the metrics being proposed by the ACCC and AER to help inform the ESB in developing metrics for the Strategic Energy Plan.</p>
<p>5. Efficient and timely investment in networks</p>	<p>Hydro Tasmania supports the proposed focus on efficient and timely investment in networks as this is a fundamental component of the energy transformation which will require appropriate focus of the ESB and industry. AEMO’s Integrated System Plan (ISP) is a key strategic document to help coordinated investment in networks, development of interconnectors and renewable energy zones. Hydro Tasmania recommends that a specific metric be included that focuses on these elements for example “‘ISP priority investments including new interconnectors are being progressed in accordance with the plan’ or ‘Priority REZ identified in the ISP are being progressed’.</p> <p>In refining these metrics, it is worth noting that while there are risks and costs associated with overinvestment, these costs may be less than those associated with underinvestment in network infrastructure. For example, over or early investment in strategic transmission assets will slightly increase consumers’ costs, while under or delayed investment has the potential to cause significant volatility in prices. This risk could be further exacerbated for example if there are unexpected changes in demand or supply such as plant exiting the market earlier than forecast or if demand increases as a result of rapid EV uptake. Such scenarios may also lead to potential reliability or security concerns.</p>