

8 March 2019

Dr Kerry Schott AO
Energy Security Board

By email: info@esb.org.au

Dear Dr Schott,

Strategic Energy Plan Draft Metrics

Thank you for the opportunity to provide comment on the draft metrics for the Energy Security Board's Strategic Energy Plan. Hydro Tasmania made a submission to the proposed metrics in November 2018.

The November 2018 consultation paper stated that the plan's aim is to *"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.

Attachment A contains Hydro Tasmania's comments on the draft metrics. We have limited these comments to the metrics where we feel change or further consideration is warranted.

Five general comments about the development of the draft metrics are provided below:

1. It is clear from the consultation document that there is a long list of proposed metrics. Hydro Tasmania supports the ESB's intention to reduce the number of metrics where possible. We believe this could increase the utility of their publication. Where reducing this number is difficult at the outset, it might be appropriate to have a mechanism to review the utility of metrics and reduce their number over time.
2. Since the November 2018 consultation, it appears that the ESB has further considered and developed metrics which are less subjective and are more likely to facilitate the tracking of progress over-time without necessitating an overt 'goal'. Hydro Tasmania is pleased to see the evolution of the metrics towards objective assessment and away from indicators that could contain a predetermined implication of what is the "right outcome". This is important in a number of fields, for example: the split between

utility-scale and distributed generation / storage; and the relative share of demand side management and flexible peaking generation in meeting peak demand.

3. Due to the potential media and political interest in a number of the metrics, it is important that they can be provided with appropriate context to minimise (where possible) misrepresentation of the issues. While this is a primarily a communications issue, we encourage the ESB to think proactively on this and work with the industry and market bodies where possible.
4. Consistent with other regulatory approaches, where possible, the Energy Plan Metrics need to minimise data gathering requirements on market participants and avoid duplication of existing reporting.
5. We note that the consultation document and draft metrics make little or no reference to the Integrated System Plan and the proposed Retailer Reliability Obligation. Many of the proposed metrics cover material that is central to the ISP. Where possible, linkages to the ISP should be made. Similarly, should the Retailer Reliability Obligation be legislated later in 2019, then ensuring a consistent relationship between the metrics and RRO could be beneficial. For example, a number of the metrics covering interventions by AEMO; amount of unserved energy; and RERT procurement will be affected by the operation of the RRO. The metrics should make it clear the drivers and context behind changes to these metrics.

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

Yours sincerely



Colin Wain
Policy Development Manager
Hydro Tasmania

Attachment A – Further comment on draft Metrics

| Draft Metric (from consultation paper) | Hydro Tasmania Comment |
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| <u>Affordable Energy and Satisfied Customers</u> | |
| Energy spend as a % of household disposable income | Hydro Tasmania has previously raised concerns that this metric could be influenced by a range of factors not directly related to the cost of energy. As the ESB’s consultation paper notes this metric will also be affected by technology changes including the uptake of solar and/or storage. It is also important to note that this metric will provide a measure of energy spend for ‘average household’ by income group. This has the potential to hide large variances between households and consumer types. |
| Customer perceived value for money | While not objecting to the use of a metric such as this, we suggest care is taken in the interpretation of findings as perception of value for money for any goods or service could easily be influenced by issues such as political or media coverage and may therefore be less related to underlying factors. |
| Representative C&I energy prices. Comparison with international counterparts | For the purposes of this metric it is critical to ensure a like-for-like comparison internationally. Further, while a key input, energy prices are not the only indicator of international competitiveness and this should be considered in any analysis and reporting. |
| <u>Consumers are empowered to manage their demand and can access distributed energy and energy efficiency solutions</u> | |
| Ratio of demand response MWs available/annual peak demand | <p>Important that this metric is used for objective analysis and not aimed at targeting a particular level of demand side participation which will compete against alternative approaches to meeting peak demand including energy storage and peaking generation.</p> <p>The appropriate challenge for the market and policy makers is to ensure there are low barriers to using any approach to meeting demand. This is most likely to facilitate a low cost energy system for the benefit of consumers.</p> |
| Economy wide energy intensity: energy consumption/GDP | The issues noted by stakeholders are relevant here as there are many factors that would affect this metric. |

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| <u>Consumers are able to easily identify and secure the best deal for their circumstances</u> | |
| How easy it is to switch (e.g. 'customers can switch in 5 clicks or less'). Most appropriate metric TBD. | A metric which tracks retailer progress towards the simplest possible switching solution has merit. The metric should however be based on the process for a 'vanilla' customer who does not require concessions or life support as retailers will need to add extra steps to ensure that the appropriate information is captured in these cases. |
| <u>Markets operate safely, securely and efficiently, under full range of operating conditions, with minimal intervention</u> | |
| Number and nature of electricity supply interruptions due to system security concerns | Publication of this metric would need to be well grounded and provided with appropriate context to avoid misrepresenting the issue, or causing undue concern. |
| Number, duration and reason for electricity system interventions by AEMO in each NEM-region | There is a clear risk that such a metric could be easily misreported. While it is critical for AEMO to monitor and track this, it should also be noted that this metric may be the result of issues covered by other ESB metrics. |
| <u>System planning and development is informed by clear and transparent rules</u> | |
| Progress towards developing and maintaining a roadmap which identifies emerging system and market issues. | Agree that it is important to the sector that the ESB (and market bodies) communicate and coordinate their forward work plans. |
| Number of adaptation processes in place to upgrade energy infrastructure to deal with increasingly severe weather events and cyber-security risks | Recommend the ESB work with energy companies and states to ensure that adaptation responses can be coordinated. Hydro Tasmania is working with the Bureau of Meteorology on data collection and analysis within Tasmania. |

| <u>Electricity and gas sectors efficiently deliver at least their share of emissions reduction target/s while ensuring reliable supply</u> | |
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| Electricity and gas sector emissions as a proportion of national emissions. Compare sectoral emission reduction with economy wide target/s | It remains important to be able to track emissions over time separate from Government policies. A better indicator for the electricity sector would be to focus on emissions intensity rather than on proportional sectoral emissions. This would assist in tracking progress towards a very low or zero emissions sector. |
| Amount of RERT capacity procured by type (long notice vs medium notice vs short notice) and number of times deployed | If the Retailer Reliability Obligation is progressed during 2019, further thought should be given to the interaction of this metric with the RRO (including providing context for the drivers of RERT procurement). |
| Total cost of RERT (\$) | As above. Hydro Tasmania supports this metric being used with appropriate context. |
| <u>Investors efficiently manage risk to support investment, operation, retirement and innovation decisions</u> | |
| Mean percentage error of AEMO annual operational consumption forecast vs actual | Hydro Tasmania supports work to improve forecasting. This is particularly relevant given the importance of this work in underpinning processes such as the ISP and RRO. |
| % announced closures by scheduled and semi-scheduled generators made with at least three years' notice. | Support this metric however: We disagree with the statement that "compliance with three year' notice of closure indicates adequate time for replacement investment decisions to be made by investors". An efficient and smooth transition of the sector in coming decades requires planning far beyond 3 years. Therefore while the notice of closure rule is important, parallel processes such as the ISP, level of investment and regulatory tests such as the RIT-T may be more important in allowing "adequate time for replacement investment decisions to be made by investors". |
| Committed investment in electricity generation capacity by region and forecast supply adequacy | Support this metric noting that an increase or decrease is a reflection of market dynamics and not, in itself, a 'good' or 'bad' indicator. |
| Investment in domestic gas resources and forecast gas supply adequacy | Support the reporting of this metric as it will also serve as an input for electricity sector planning. |

| <u>Wholesale and retail markets are competitive and deliver efficient outcomes for consumers</u> | |
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| Average forward swap and cap contract prices for electricity in line with LRMC of new entrant, by region where available | <p>Hydro Tasmania continues to have reservations over the use of this metric. As stated in our November submission, context is critical and market prices must be seen holistically as they will reflect a wide range of economic and non-economic factors. Consistent with the ESB’s focus on metrics rather than targets, it would be more appropriate to remove the words “in line with LRMC” and replace with “relative to LRMC” or similar, in order to allow comparison without prejudice.</p> <p>A further concern with this metric is that it would appear to involve judgement about the likely new entrant type. This will vary by region and competing developers will have different perspectives on whether the most economic new entrant is (for example) gas, gas firming renewables, storage firming renewables or coal. Each is likely to have different costs, generation profiles, available services and plant life.</p> <p>In general terms, Hydro Tasmania believes it may be more appropriate to focus on metrics that capture the level of competitiveness within electricity and gas markets rather than this measure.</p> |
| Retail and wholesale contract gas prices reflect netback/export parity plus transport and other relevant costs. | Hydro Tasmania supports gas price monitoring through the ACCC. |
| Extent to which competition in the wholesale electricity and gas markets is identified as an issue by the AER. | AER monitoring and ACCC powers which support effective competition in electricity and gas markets are in the interests of consumers. We support these processes being used to inform ESB metrics. |
| <u>Deep, liquid and transparent financial markets for electricity and gas and related services</u> | |
| Ratio of contract volume (both volumes traded and open interest) to demand for electricity and gas | Support – it is worth observing this metric as part of the range of liquidity metrics proposed in the consultation paper. |

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| <u>Innovation is incentivised and enables value from new technologies</u> | |
| Value of system security markets (e.g. FCAS) | Volume, liquidity and participation in the breadth of services needed for system security (beyond just FCAS) is worth monitoring. This is particularly relevant in an evolving market that will require a range of different services into the future. |
| Proportion of energy and system security services provided by DR and DER | Monitor, noting that there is no 'right' proportion to come from DR / DER and utility-scale. An appropriate outcome is where energy demands are met through an efficient mix of resources. |
| <u>Investment solutions are optimal across all resources</u> | |
| Congestion levels on electricity transmission/distribution networks and gas pipelines | Worth monitoring during energy transition – congestion and forecast congestion was reported as part of the 2018 ISP. |
| Extent to which congestion is being examined through RIT-T/Ds | Highlights the importance of the ISP process. |
| Cost of inter- and intra-regional constraints | Agree that it is, <i>"Important to consider whether ISP/RIT-T processes are driving efficient inter-regional investment in the interests of consumers"</i> . However, it is not immediately clear that this metric would on its own indicate this. It is likely that the ISP process can evaluate this more fully as a whole of NEM issue. |
| <u>Governance arrangements support the achievement of the national energy objectives, and emerging issues are addressed in a coordinated, timely and consultative manner.</u> | |
| Energy market institutions have published and co-ordinated priorities, work programs and outcomes | Critical issue given the rate of change and overlap of concurrent processes. |