28 November 2018

Dr Kerry Schott AO
Independent Chair
COAG Energy Council
Energy Security Board

Submitted via email: info@esb.org.au

Dear Dr Schott

Energy Security Board Strategic Energy Plan

Origin Energy Limited (Origin) welcomes the opportunity to comment on the ESB's development of a Strategic Energy Plan.

While we recognise that the ESB's task stems from a Finkel Review recommendation, we are sceptical of the effectiveness of a strategic energy plan given the current fragmented and deeply politicised policy landscape. Ultimately, without a more cohesive, predictable, and principled approach to policy setting, any strategic plan is unlikely to achieve the desired outcomes.

Ultimately also, if an enduring and useful strategic plan is to be developed for the NEM, more time is required for more thorough consultation with stakeholders.

Notwithstanding the above views, we have commented on some of the proposed market objectives and metrics in Attachment A. One general observation is that many of the objectives and metrics are outcomes based. In our view, in some cases, the focus should be on removing any barriers that could impede the achievement of the outcome, particularly where the result is dependent on the action/behaviour of an individual or market participant. For example, drawing conclusions on the health of the market based on the number of customers accessing their data could be misleading as some consumers may never have a desire to do so. However, the ability for customers to easily access their data, and the removal of any outstanding barriers is an indicator that the market is working effectively and is therefore a more appropriate metric.

Additionally, some of the objectives and metrics do not seem to account for the cyclical nature of the energy market which means that certain key parameters are unlikely to trend in any one direction on an ongoing basis.

If you wish to discuss any of these issues further, please contact me on 02 9503 5111 or at Steve.Reid@originenergy.com.au.

Yours Sincerely,

Steve Reid
Group Manager Regulatory Policy

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Table 1 – Affordable energy and satisfied consumers

Objectives	Proposed metrics	Origin comments
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 C&I customers' energy costs are competitive with international counterparts X% consumer disputes / complaints resolved by retailers/ombudsman schemes	While recognising that placing downward pressure on prices is a primary focus, the phrasing of the objective suggests that the health of the NEM will be judged on the ability of the market to continually deliver cheaper energy. This is impractical and does not account for the cyclical nature of the market. We suggest that the objective could state that 'energy is affordable for all consumers supported by protections for vulnerable customers. Similarly, the proposed metric relating to a reduction in energy spend as % of income is not appropriate given that this: is also dependent on income levels; suggests that energy should continually get cheaper; and does not seemingly take into account that energy is currently a small proportion of household income relative to other household expenses.
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 Increased participation in wholesale demand response or energy efficiency programs year on year	This assumes that wholesale demand response mechanism will be implemented which is premature since this is still under consultation. An increase in consumers accessing data or participation in wholesale demand response is not indicative of an improvement in consumer welfare. Despite efforts by regulators, governments, and industry, some consumers may never be empowered in the manner suggested by the proposed objective, and so this should not be viewed as the market failing. Equally the market and technology may develop such that customers ask retailers or third parties to access and assess data on their behalf. Given the above, the objective should focus on removing any barriers that may impede consumers managing their demand or accessing distributed energy or energy efficiency. The metrics could include e.g. the uptake of enabling technologies such as smart meters.
Consumers are able to easily identify and secure the best deal for their circumstances	Increasing percentage of consumers on better/best contracts	It is difficult to measure percentage of consumers on best contract, without focussing unreasonably on price.

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	Increasing number of consumers using energy data and analytic tools (EME, switching sites, flipper sites) to make energy decisions Consumers can switch retailers in “five clicks” or less and will be changed to their new provider in less than 2 business days	If every customer was on the best priced contract, then this best contract would in effect not exist. Perhaps the metrics should focus on the ease with which consumers are able to access and compare offers and that offers meet the range of customer needs. The metric should look to ensure that there are no impediments to consumers accessing their data or the use of analytical tools, as opposed to entrenching increasing use of these tools as a measure of market efficiency.

Table 2 – Secure electricity and gas system

Objectives	**Proposed metrics**	**Origin comments**
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) Market operated in secure state for greater than X% of time each year System wide outages (aggregation of network and any generation related) less than X% per year System interventions < X per year Gas system operates securely within technical operational parameters	Unclear as to what is meant by system wide outages. Is this referring to load shedding due to reliability issues? Nevertheless, reliability related parameters should look to judge the performance of the system against the reliability standard.

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Table 3 – Reliable and low emissions electricity and gas supply

Objectives	Proposed metrics	Origin comments
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 Reliability standard achieved Annual reduction in number of times RERT procured and activated Development of, and then maintenance of or improvement in, key metrics: Strategic reserves Flexibility and dispatchability	It is not just the number of times the RERT is procured that is important, but also the overall cost. The meaning of the last metric is not entirely clear.
Investors efficiently manage risk to support investment, operation, retirement and innovation decisions	Accurate and transparent market information on forecast demand, generation investment and generation withdrawal to inform market participants (and potential participants) Average forward swap and cap contract prices for electricity in line with the efficient levelised cost of energy Cost of capital for new electricity and gas market investments are competitive with international standards All market participants comply with any rules around notice of closure	The ability for investors to efficiently manage risk is also dependent on the policy and regulatory framework, and so this should be recognised here. Looking to compare the cap and swap prices to levelised costs will prove difficult and will raise issues around the methodology employed. Additionally, the outcomes may not necessarily prove informative given the cyclical nature of the market. e.g. if the contract prices were above costs at a point in time this could be a signal for new investment and not necessarily a sign of market inefficiency.

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Table 4 – Effective development of open and competitive markets (where appropriate)

Objectives	Proposed metrics	Origin response
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 Market concentration continues to decline across all regions Reduction in # of customers on standing offers over time Increase in new market participants year on year	While the first metric may be appropriate, it would be difficult to test this at a particular point in time Suggest that metrics regarding concentration and new participants focus on ensuring that there are no barriers to entry as opposed to being fixated on movements in the actual numbers. E.g. the market could become more efficient and competitive even where there hasn't been an increase in market entry.
Deep, liquid and transparent financial markets for electricity and gas and related services	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) Increase in gas secondary trading volumes, for commodity and transportation	Increase in traded volumes relative to physical demand is not necessarily informative, particularly as the market evolves, and participants utilise non-traditional means to manage risk such as PPAs. Additionally, some participants may consider pool exposure as a prudent strategy and so may not engage in the contracts market to a significant degree.
Access to efficiently priced fuel and transport	Increase transparency of metrics on fuel reserves and prices (coal, gas, hydro) Commodity costs competitive with international spot price less liquefaction or shipping Increased transparency in gas transport costs	The second metric seems to be alluding to LNG netback, which while informative is limited as indicator of efficient domestic gas prices.
Innovation is incentivised and enables value from new technologies	Creation of value streams for the efficient delivery of system security services (e.g. inertia, fast frequency response)	Uptake of DER could well reach a saturation point, so again striving for year on year increases may prove impractical. The aim

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	• Increased uptake of service provision from DSR & DER (volume year on year) • Increased transparency of information and knowledge sharing from proof of concept trials	should be to remove barriers for uptake rather than striving for uptake to increase

Table 5 – Efficient and Timely investment in Networks

Objectives	**Proposed metrics**	**Origin comments**
Investment solutions are optimal across all resources	Congestion levels are not material or are being examined through RIT-T/Ds Reduction in market impacts (costs) of inter- and intra-regional constraints X% of smart meter customers on cost reflective network tariffs by jurisdiction Reducing generation connections times from project commitment ISP/RITs consider non-network solutions and investments are undertaken where in customer benefit	Rather than measuring proportion of cost reflective tariffs it may be more useful to measure the value of capex deferred due to better use of existing assets.
Networks incentivised to be efficient platforms for energy services	Increased integration of distributed energy resources in distribution networks • Increased transparency in prices and obligations for distributed energy resources connecting and using the distribution network • Time taken to consider and process rule changes and regulatory approvals in line with best practice international regulatory processes	Perhaps add net cost avoided by distributed energy resources

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