

COAG Energy Council

Via Email: Energystrategicpolicy@industry.gov.au

13th May 2020

Re: Energy Security Board Review

Introduction

We are writing in support of the continuation of the Energy Security Board (ESB). However, this support is conditional on the role, responsibilities and accountabilities of the ESB becoming better defined, that governance and transparency is improved and that an end date is agreed that aligns with the completion of the current Post 2025 market design work.

In this brief submission we offer our views on improvements to bring about a more defined role and accountabilities of the ESB and in doing so make it more effective. This will largely focus on ensuring the ESB has sufficient resources, improvements to consumer engagement and imbedding a consumer role in both the ESB and ESB Board's operations. We have already participated in a discussion with RDME Consulting as have a number of our member companies and this submission provides additional insight and perspectives.

The EUAA is the peak national body representing major Australian electricity and gas users. A not-for-profit organisation we are 100% funded by member contributions. Our membership covers a broad cross-section of the Australian economy including significant retail, mining, manufacturing, materials and food processing industries. Our member companies spend anywhere between \$1 million per year to \$1 million per day on energy and combined directly employ over 1 million Australians. While they are a diverse group of companies they all seek affordable, reliable and ecologically sustainable energy supply and expect to see all elements of the energy supply chain working in the long-term interests of consumers.

The EUAA and its member companies understand that the electricity market is undergoing a paradigm shift away from a centralised, fossil fuel based system to a highly decentralised, zero carbon system. This is occurring at great pace and is driving many positive outcomes.

However, one of the key issues facing energy advocates like the EUAA is the sheer volume and technical complexity of the energy reform agenda. The ongoing political tensions surrounding some of these reforms is also a key issue for both energy users, market participants and investors. We see the ESB having the potential to play a positive role in managing both of these key issues.

How the ESB's role has changed and considerably expanded

Since its inception the ESB has played a critical role in the coordination of policy responses to help manage the energy transition that is underway. Initially established to oversee the roll out of the Finkel Review recommendations, which it did to great effect, the responsibilities of the ESB have been considerably expanded to areas that go beyond the original Finkel recommendations.

Sometimes this has worked well such as the consultation currently being undertaken on the post 2025 market design. Unfortunately, sometimes it has not worked well such as the very short review of reliability standards following a COAG Energy Council direction at its November 2019 meeting.

Our experience with this latter review has raised concerns the EUAA has regarding the ESB governance model where it is required to follow COAG Energy Council directions to not only provide advice (it's original intent) to now having the ability to make rule changes outside of the well proven and stakeholder supported consultation process of the AEMC.

Case Study - Reliability Standard Review

The ESB was directed to undertake the reliability standard review by the COAG Energy Council in a very short time period with a report back to COAG required for its meeting on 20th March 2020. Terms of reference provided by COAG Energy Council effectively provided the ESB with little room to manoeuvre. Given the potential impact on consumer costs we would have expected a reasonable level of public consultation. Sadly, this did not occur with the EUAA only having very limited discussions with the ESB staff in the course of preparing their report. The existing and well supported process for reviewing the reliability standard through the AEMC Reliability Panel was ignored.

COAG made its decision to effectively significantly strengthen the standard and stakeholders finally received the ESB's reasoning (and modelling) behind that decision with the publication of the proposed rule changes on 12th May. We see in that publication that the ESB concluded that:

“A tighter standard in the range of 0.0010%-0.0005% expected USE was found to have net positive benefits overall.” (p.3)

But that decision was made without consultation with consumers. As was the decision to implement the out of market capacity reserve. The AEMC review only 12 months previously, drawing on extensive consumer engagement, affirmed the existing reliability standard and did not support this type of reserve. In these very difficult times, our members are not looking forward to potentially substantially increased costs for a level of reliability they do not want and never had the opportunity to tell the ESB they did not want.

Transparency

The ESB has the potential to provide a platform whereby peak market bodies can work more collaboratively moderating some of the worst elements of the politics of energy that have made the energy transition less efficient than it should have been. However, this does mean that stakeholders do not see the variety of views of the market bodies which is important for assist stakeholders in understanding of complex issues. All we see is a collective ESB view that may be a compromise between the market bodies and may still be driven by particular political interest.

Recommendations

With the energy reform agenda continuing at its current pace and complexity we believe the ESB has a role to play and should be retained. However, there are some key aspects of the ESB governance that could be improved being:

- ESB shouldn't be a rule making body: As with the implementation of the Finkel report recommendations, the role of the ESB should be one of focussing on issues around broader market design post 2025 with the rule making role being held by the AEMC.
- Engagement Best Practice: During this critical time of transition, the ESB should be striving for engagement best practice with stakeholders having appropriate opportunity to provide input in a multi-stage consultation process. While there are many models to follow, the International Association of Public Participation (IAP2) framework is a good place to start and conscious movement toward the 'consult', 'involve' and 'collaborate' parts, rather than just 'inform'. We are seeing good evidence of this in the Board's Post 2025 market consultation process.
- Resourcing: The current resourcing levels of the ESB appear to be inadequate given the increasing reform workload. We believe this is leading to insufficient engagement with stakeholders on key areas of reform. Even in the absence of this goal, we feel the current level of resourcing is inadequate and should be reviewed. For example, the ESB should have its own internal resources rather than seconding specific resources from the three market bodies. This provides not just resources but gives stakeholders a sense that the ESB research is providing an independent voice.
- Transparency and Communication: Most consumers do not understand the complexity of energy markets and are therefore disengaged from the reform process that is meant to be in their long-term interests. Therefore, a continued commitment to transparency and "plain English" communication should be adopted to build stakeholder trust in both the reform process and outcomes.
- ESB Board Composition: The ESB, as a coordinating body, rightfully includes the heads of our peak market and regulatory bodies on its board. However, given these reforms are designed to be in the long-term interests of consumers we recommend that the ESB board should include consumer representatives
- ESB Customer Council: To help bring them closer to their customers, most if not all market participants have established various versions of "customer councils" or "customer advisory groups". These groups play a critical role in providing market participants with perspectives from the "real world" of the energy user and have been important to the development of products, services and pricing that is more in-tune with customer needs. We would recommend that the ESB establish its own "customer council" to provide similar input and advice.
- Sunset Date: We are already served by three independent market bodies (AEMO, AEMC & AEMO) which provides a sound governance framework. The ESB's role, focussed on major reform processes such as the Finkel review, should conclude with the completion of the Post 2025 market design work

This submission is not confidential.

Thank you for the opportunity to participate in this review.

Kind regards



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