

SUBMISSION

TO | Energy Security Board

By email: info@esb.org.au

TOPIC | Uniting Communities Response to Post 2025 market design issues paper.

DATE | 30th September 2019

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Note: This submission does not include any confidential information

About Uniting Communities

Uniting Communities is an inclusive not-for-profit organisation working alongside more than 30,000 South Australians each year as they strive for bright futures and great lives. We value diversity and are committed to providing respectful, accessible services to all.

Uniting Communities seeks to reduce inequality and improve wellbeing for all who are striving to overcome disadvantage – individuals, their families and communities – so that they can realise their potential and live the best lives they can. We do this in a way that is non-judgemental, generous and supportive; that embrace diversity; and that values and promotes fairness, justice and the benefits of strong communities.

Our service delivery, advocacy and community building activities are central to achieving this.

We offer more than 90 services to support the needs of both individuals and our community, across a range of areas. These include mental health and counselling; residential aged care and support for independent living; housing crisis and emergency support; disability services; services for Aboriginal and Torres Strait Island people; financial and legal; drug and alcohol counselling; family relationships; and respite and carer support.

Uniting Communities also has extensive experience in dealing with energy markets, firstly through our service delivery and particularly through financial counselling where energy costs have been the most frequent presenting issue for clients over a number of years. We've also been an active participant in energy market debates as a participant in a wide range of market body activities for nearly 2 decades. Over recent years we have had a focus on promoting and encouraging much greater consumer and community engagement in energy policy debates and regulatory practice.

This submission draws on our most recent report, "Resourcing for Consumer Engagement, which was spurred by initial consideration of resourcing consumer engagement by the COAG Energy Council, commencing with the 2017 discussion paper. The project was funded by Energy Consumers Australia and was undertaken with Peter Eben from Seed Advisory.

This submission unashamedly takes a consumer perspective, with a vulnerable consumer perspective as part of this, to consider risks and possibilities for consumers in rapidly and continually changing markets.

We would have liked to provide comment beyond what is included in this submission, these are weighty matters that are very important to consumers, however we are limited in the time and resourcing that we could put into this document. We are very happy to follow up on any of the comments made in this submission or on proposals made by others to which we may be able to add value.

Key questions from the ESB Issues paper

The Issues Paper specifically seeks feedback on the following 4 questions

1. the possible future scenarios that will be used when assessing options for change,
2. the assessment framework for evaluating market design options
3. the opportunities, challenges and risks that need to be considered as the project looks to identify market design options; and
4. the implications for market design resulting from these opportunities, challenges and risk.

The issues paper says that the reason that the ESB “is seeking this feedback is to ensure that the post-2025 project

- scopes out the possible futures (and shocks) against which market design options should be tested
- achieves broad consensus on the challenges and risks that must be addressed by market design now and into the future.”

Possible Future Scenarios (question 1)

There is no doubt that energy markets around the world, as well as in Australia, are going through a period of rapid and ongoing change which we assert will not abate for at least five, or more years. So in considering the market beyond 2025, we are assuming that change will remain a constant, although we have some sense of belief that Australian energy markets will be moving to something akin to “synthesis” (in an Hegelian sense) by then.

The notion of a progression of three propositions: thesis - the first idea that is followed by an antithesis - second idea that negates the first with the tension between the first and second ideas being resolved as a synthesis - third idea, is often attributed to philosopher Georg Wilhelm Frederich Hegel, though he did not use these terms. The notion of the progression of ideas / thinking as expressed by these 3 terms is a useful analytical construct.

A part of the dilemma that the ESB is raising for Australian energy markets is that after nearly a century of “thesis” the last decade, or thereabouts, has seen a plurality of anti-theses all challenging energy market “thesis” before any semblance of synthesis can occur. Anti-theses include: competition policy and privatisation, disaggregation of vertically integrated energy utilities, renewable energy, energy efficiency, carbon pricing, DER, micro-grids, PV, EV and much more.

A perspective on current energy market change was given at the 9th European Commission Citizen’ Energy forum in London in 2017, attended by Uniting Communities employee, Mark Henley. He wrote:

“I will conclude my reporting of the Citizens Energy Forum with some comments from Dr Philip Lewis from VaasaETT, as this was the most significant future looking presentation from the forum.

VaasaETT is a research project established in 2004 with a particular focus on monitoring energy customers switching rates and associated dynamics that emerge across the world in competitive energy retail markets. The project was established by Dr Philip Lewis and Paul Grey.

Dr Lewis spoke at the Citizens Energy Forum on the topic of “key principles for the next energy markets,” he made the following observations:

- the new market is not here yet, it will appear in 4 to 6 years time
- electric vehicles will be a major driver for the new market
- the home will support electric vehicles more than electric vehicles supporting the home
- future energy markets will be transaction driven, consequently there will be much greater interest and involvement of financial institutions
- the new market will be more bottom-up
- there will be many new platforms for interaction - though there are currently too many platforms scrambling for attention
- energy will only be part of the future business model
- new market models will caution and customers from price signals
- new market models will garner greater flexibility
- all succeeding models will be global and will bypass the country if it's market doesn't fit the model
- regulation will determine the extent of pickup by succeeding models
- simpler well-regulated markets will thrive
- access to data will be crucial
- politics, media and regulation will all need to be positive.

He concluded his presentation by saying “massive, amazing things will happen in the future”

Particularly interesting for me were the observations that the emergent market is still 4-6 years away and that electric vehicles play a major role in how the market settles. Sounds like more fun times ahead for energy consumer advocates. (as well as regulators, government and businesses).

I think that this is a useful perspective for Australians energy policy and debates. Energy markets are in transition at the moment, a period of unprecedented change and we are not going to reach a new ‘normal,’ for some years yet, so we all need to work on finding the best short term outcomes during ongoing transition, than focus too much on the long term. (There is little point focussing on the long term maintenance of the forest if all the trees are cut down in the short term future)”

While there is much that could be drawn from each of the observations made by Dr Lewis about future energy markets, for this ESB review we wish to highlight four observations which we think a particular pertinent Australian energy markets beyond 2025, these being:

- future energy markets will be transaction driven, consequently there will be much greater interest and involvement of financial institutions
- the new market will be more bottom-up
- simpler well-regulated markets will thrive
- access to data will be crucial

In order to focus our thinking, we suggest that all of these future looking observations and the focus of the ESB Issues paper questions can be collapsed into one overarching question:

What should genuinely consumer centric future energy markets and market structures look like?

We answer this question by saying “we don’t know” while suggesting that there are some clues about what better markets and better market design can look like for consumers. These then form our response to the issues paper question about “the possible future scenarios that will be used when assessing options for change”

We have ordered our thoughts about clues for future consumer centric energy markets under the following headings:

1. embrace uncertainty
2. ensure protection for vulnerable customers (and everyone else too)
3. value the wisdom and insights of consumers
4. embed consumer perspective and expertise in every element of energy markets
5. energy bills must come down.

Embrace Uncertainty

Energy markets have been engineering driven and as essential service providers and key drivers of economic growth have always looked for certainty. Uncertain environments mean that energy providers cannot necessarily guarantee certainty particularly in environments of uncertain government policy, rapid technical change, substantial R&D and changing societal norms.

We suggest that in this environment it is crucial that all participants in energy markets can recognise uncertainty in their planning and in their public pronouncements. We strongly believe that the public will accept clear statements about uncertainty where all market participants are making similar comments, are explaining the reasons for the uncertainty and are clear about what is being done to understand and resolve matters that are uncertain. While this approach may be uncomfortable for some initially, we suggest that is a much more honest approach to take and that the public will accept genuineness and “best endeavours”, as opposed to the sometimes-current situation of platitudes, simplistic solutions and ever rising prices.

Of course, robust, ongoing and genuine consumer engagement as well as a shared industrywide sense of what is achievable will also assist in gaining public trust.

Restoring community trust is also a critical basis for future energy markets, as opposed to the current low trust environment. Uncertainty is much more readily accepted, where there is high trust.

We are aware of some current developments which should help to improve community trust in energy markets, over time. The Energy Charter being a case in point as well as some excellent engagement from some network businesses.

We also note that future markets that are transaction driven, as opposed to being more engineering based, are likely to be better able to cope with more uncertainty than current Australian energy markets, and the overreliance on mantras of ever improved reliability, when this is not what most customers are wanting to be paying for.

Ensure protection for vulnerable customers (and everyone else too)

The reality of any market in transition is that there will be “fraudsters,” who will seek to exploit customers, particularly more vulnerable customers, for short term gain. It is essential that core regulation and consumer protections remain constants in changing markets.

All market participants, including businesses, governments and market bodies need to be constantly attuned to the potential for and practice of exploitative behaviour, and to prosecute perpetrators of exploitative practice as quickly as possible. We observe that in the past there has been inadequate attention given to identification of exploitative behaviour in energy markets and consequently a lack of compliance and enforcement. We also think that this is improving but must continue to improve and evolve as new threats of consumer exploitation will certainly be a part of energy markets during rapid change.

Strong and ongoing consumer engagement will help to identify inappropriate behaviour while future market design will need to strengthen and use the early warning processes that are currently in place including energy industry Ombudsman, financial counsellors and other community service providers.

Value the wisdom and insights of consumers

A growing number of energy network businesses are discovering that consumers can provide much greater insight and deal with much more complexity than these companies have traditionally expected. Regulated network businesses are increasingly realising that genuinely engaging consumers provides invaluable insight for the business, far beyond the value of engaging for the sake of regulatory process and being seen to keep the regulator satisfied. We suggest that each of the 3 winners of the ENA / ECA consumer engagement award, ElectraNet, Essential Energy and most recently Jemena would support this observation.

In our recent report about Resourcing for Consumer Engagement, we sought to give an indication of the value to bill paying customers of network business engagement with consumer advocate groups, the following extracts are from that report.

Extract 1:

Arguably the best, and recent example of the benefits from consumer engagement in reducing prices paid by customers for the energy, is summarised in this Media release from AER, 28th February 2019. The media release was issued on the finalisation of the last of five New South Wales and ACT network decisions that had been remitted back to the AER, for aspects to be remade. This being an outcome of appeals by network businesses to the limited merits review and subsequent appeal of some of these decisions by the Australian Energy Regulator.

There was extensive and detailed discussion between key consumer organisations, the relevant network businesses and the AER in reaching decisions summarised in this media release. This final decision related to Jemena Gas Networks. The proceeding remitted

decisions were for the New South Wales and ACT electricity distribution businesses - Ausgrid, Essential Energy, Endeavour Energy and Evoenergy (ACT).

The 28th February media release included:

“In total, consumers in NSW and ACT will save nearly \$6.4 billion as a result of these remade decisions than what the businesses sought to recover in their 2015 final proposals. To their credit, the businesses have transformed their organisations and responded to the revenues largely in line with what we set for them in 2015,” said Ms. Conboy”

Extract 2:

Considering savings from engagement by the 3 NSW electricity distribution businesses for the 2019-24 regulatory period, we concluded: “Indicative savings achieved by consumer engagement over the 3 distribution networks is \$205m or \$41m per year over a 5 year regulatory period.”

Extract 3:

Referencing the ACCC review of Australian energy Prices, 2018, we said “the total achievable savings through network costs is \$1,136m with savings of \$1,827m from wholesale cost savings, \$388m from retail cost savings and \$400m from savings to customers from environment related costs added to electricity bills.

We suggest that it is intuitively reasonable to propose that the extra engagement and advocacy that would be brought to bear by implementation of recommendation 1 (indicative ACCC savings) would result in a saving of, say up to 5%, (this is an intuitive estimate by the authors, not a statistically based measure) of the achievable network savings indicated by the ACCC enquiry. This equates to a minimum saving of \$57m that would be the direct result of the extra capacity added to consumer engagement and advocacy with networks.”

We observe that appropriate consumer engagement, both directly with bill paying customers and with consumer advocacy groups, provides insight for businesses that they would not otherwise obtain at a high level of detail and provides billion-dollar savings to energy customers, in aggregate.

Future energy market design must recognise that consumer engagement is the foundation of all other market processes and design of future energy markets needs to be undertaken with active and supported consumer group input and shared problem solving about implementation strategies.

Embed consumer perspective and expertise in every element of energy markets

Future energy market design must embed ongoing consumer focus and consumer engagement in all aspects of energy market. Not all aspects of how this is achieved are known at this stage but can be ‘co-designed’ with consumer and community group collaboration. We suggest that there are some aspects of embedding consumer

engagement that are practical and will assist in embedding consumer perspective. These elements of embedding consumer centricity in further market design include:

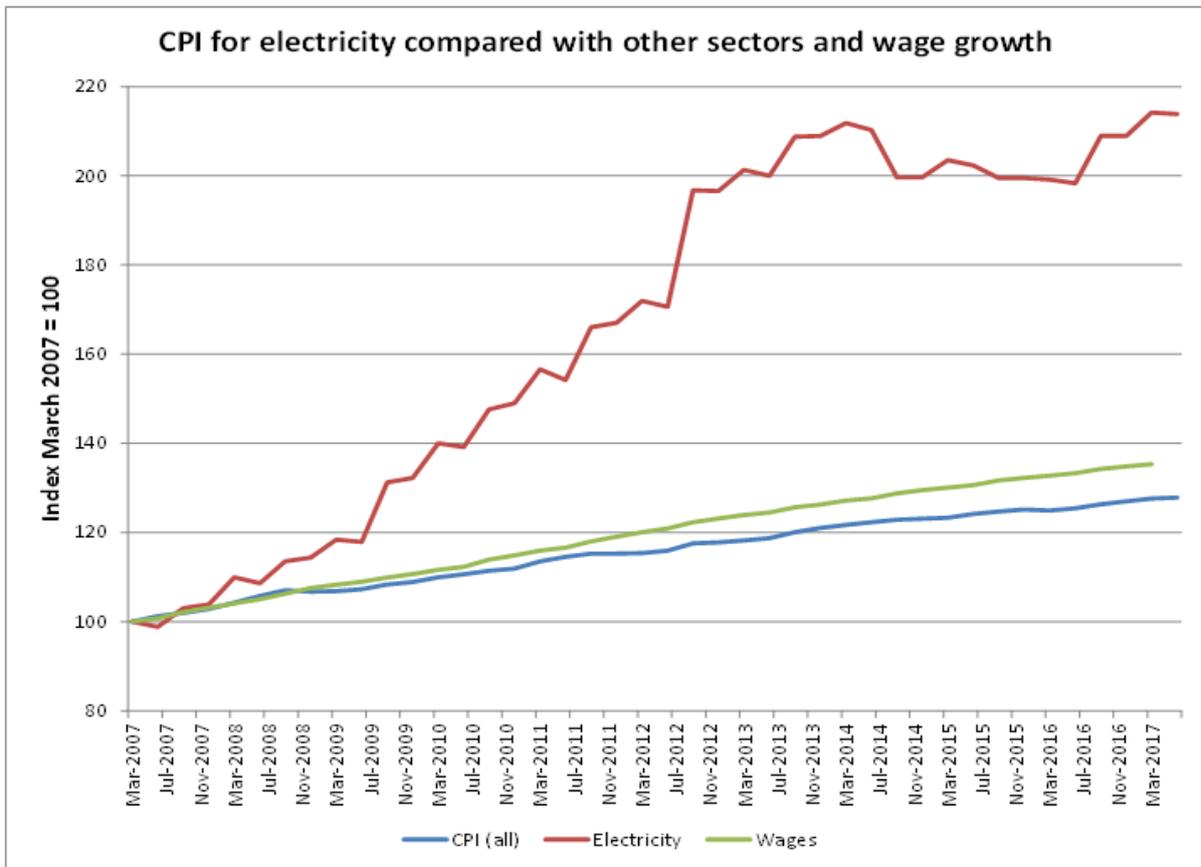
- a requirement that each market body Board / Commission includes at least one member with proven, practical and demonstrated consumer engagement experience and expertise.
- Establish and resource 'dialogues' to occur at least annually between consumer representative groups and network businesses (through energy consumer's Roundtable and ENA) and between consumer groups and consumer representative groups and retailers (through consumer Roundtable and Australian Energy Council)
- Establish consumer engagement as an ongoing work stream / focus of the COAG Energy Council / ESB
- Require all market bodies to establish, maintain and report to COAG and the public, on their consumer engagement and responsiveness strategy.
- AER to have the flexibility to provide regulatory benefits to network businesses that demonstrate an ongoing commitment to effective consumer engagement. Benefits could include the capacity to "fast Track" acceptable regulatory proposals that have strong consumer support. This would be in line with the Ofgem option of fast-tracking an appropriate regulatory proposal.
- Transition network regulation to being a process based on regular, responsive and ongoing consumer engagement and shared problem solving, rather than maintaining the current 5-year cycle with high intensity periods and high transaction costs.

We recognise that some of these measures will require rule changes in order for them to be implemented.

Energy bills must come down.

The following graph taken from the ACCC's report on energy affordability highlights the reason for much of the current angst with Australian energy markets: energy costs are rising substantially faster than wages while the disparity is even greater for people on fixed incomes including self-funded retirees and recipients of Newstart and parenting income support payments.

Another decade of the same trend increase in energy prices compared to CPI / wages would be diabolical, forcing ever more vulnerable and lower income households to go into energy debt that they will never be able to repay or to switch off from the grid and find ways to cope without electricity supply - situations that we consider to be completely untenable.



The price the customers are paying for energy in 2025 and beyond must be lower in real terms than it is today. This is a key principle for future energy market design, consumers cannot continue to bear most of the costs, mainly imagined, of market uncertainty.

Opportunities, Challenges and Risks (question 3)

The issues paper asks about “The opportunities, challenges and risks that need to be considered as the project looks to identify market design options?”

Opportunities

The most significant “opportunity” that is also an imperative, is for energy businesses, governments and market bodies to rebuild trust with Australian energy consumers. This cannot occur through continuation of current market structures and processes and by rules, regulation and market operation that continue to take a purely ‘supply side’ approach to understanding energy markets. Similarly there is no capacity for any significant market participant, broadly understood, to play ‘the blame game’ with the Australian public.

The opportunities are for genuine shared problem-solving involving consumer groups working with market bodies, governments and energy businesses. We are optimistic that the “Energy Charter” that was launched earlier this year, can be a process that plays a

significant role in rebuilding trust for energy businesses and leads to businesses renegotiating their 'social license'

Challenge

The challenge is to move beyond the gruelling regimen of non-stop processes. On 11th June this year, Uniting Communities undertook a quick inspection of current processes seeking input from COAG Energy Council, ESB, AEMC, AER and AEMO websites and we counted 152 topics open for input to some extent. It is recognised that not all of these were high level policy or regulatory processes requiring consumer input, but we suspect many could benefit from some degree of consumer perspective, and consumer groups need enough market knowledge to be able to 'triage' their engagement. This list does not include jurisdictional processes nor planned engagement activities conducted by any of the network businesses or other energy market stakeholders.

The challenge is to move market development beyond the sheer volume of activity to more strategic considerations that parties can meaningfully engage with.

Risk

A significant risk is that consumer groups will not be resourced adequately to play an active role in shaping consumer centric future market structures and dynamics.

In our "Resourcing Consumer Engagement" report, we estimated current consumer resourcing in Australia now and developed the following table and comments.

The column, "Active in RT June 2019" refers to the numbers of people who attended the energy consumer's Roundtable in June 2019, this being where consumer representatives and advocates are able to get together.

"Nemchat participant" refers to the list of community group-based people who share energy advocacy and engagement through an email group. It is likely to be the most up to date listing of active energy advocates in Australia

Jurisdiction	Active in RT, June 2019	Nemchat Participant	Full Time Staff > 30 hours per week	FTE Estimate of part time	Examples
Queensland	3	7	1	1	QCOSS. Note active COTA involvement is voluntary
NSW	4	11	4	0.8	PIAC
Victoria	7	19	2	1.5	Consumer Action. Brotherhood of st

					Laurence, VCOSS
Tasmania	2	3		0.4	TasCoss, Anglicare
SA	3	5	1	1.0	SACOSS, Uniting Communities
WA	1	4		0.1	WACOSS
ACT	1	1		0.1	ACTCOSS
NT	0	0		0	
National*	1	2	1	0	ACOSS, TEC, Choice
Sub-totals	22	52	9	4.7	
Other Advocates	-	-	-	2.0	EUAA, MEU, Irrigators Trust
Total	22	52	9	7.0 (rounded)	

Figure 2. Source, Uniting Communities 2019, based on discussions with Consumer Roundtable and EUAA

The following was part of our commentary

*“*Note that the distinction between jurisdictional web-based and national organisations is not clear-cut. The Total Environment Centre (TEC) for example, is predominantly funded to work on national issues while also being New South Wales based. Renew, St Vincent De Paul Society, the Councils of Social Service and Uniting Communities are all actively involved on national level issues while their staff are jurisdictionally based where they are also active. The involvement of “other advocates” who are part time reflects the groups, mainly with Commercial and Industrial business or agricultural constituency, who can be very active on energy issues when there is a specific aspect that they are keen to influence. At other times their involvement is much more of a watching brief, with EUAA and MEU having a more ongoing interest.*

Beyond the Roundtable membership there are about another 4-8 people nationally who engage on energy issues mainly representing business and agriculture groups. For these people too, energy issues are but one of the range of issues they are involved with on behalf of members and constituents.

It is instructive to recognise that for a significant majority of the people involved with energy policy and engagement from a consumer perspective, energy is but one of a number of issues with which they are involved.

Figure 2, while indicative, indicates that a majority of the fulltime staffing is based in NSW and this is due to the NSW State Government funding for the Public interest Advocacy Centre’s Electricity and Water advocacy project. This highlights the limited resourcing levels in other jurisdictions and emphasises the significance of part-time funded staff and some

volunteers who are more likely to be limited in their capacity to engage in detail on some issues.”

Suffice to say that a total of about 9 staff working 30 hours a week or more and a further 7 full time equivalent staff working part time or casually does not provide an adequate resource base for consumer centric market structures to be developed or maintained.

Summary

We have re-phrased the ESB Issues paper questions for consideration to one, central question: “What should genuinely consumer centric future energy markets and market structures look like?”

In briefly responding to this question, we have said that rebuilding trust with the Australian public is a necessary pre-requisite before other market structure changes can be contemplated.

We have said that reversing the rate of change of energy costs, compared to wage growth is crucial, as is ensuring robust consumer protection measures are in place to deal with the inevitable emergence of ‘fraudsters’ who seek to exploit vulnerable customers.

We have also made some suggestions for structural changes and ongoing work streams to embed consumer engagement in all aspects of future market design, rather than simply taking the current supply side model and ‘tweaking’ this to suit the businesses, government and other bodies who are supposed to be focused on meeting the long term interests of consumers of energy.