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Strategic priorities for the COAG Energy Council

Grattan Institute response to the AEMC's Strategic Priorities Discussion Paper

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Summary points

- The AEMC should recommend a set of around 5 strategic priorities for the COAG Energy Council to focus on *immediately* as well as another 5 or so *longer-term* priorities. More than this, and they are no longer priorities.
- The AEMC should clarify where this piece of work sits in the current policy environment and how it will be carried forward.
- The COAG Energy Council should measure and monitor progress on the strategic priorities and report back as part of their new annual report.
- The AEMC should clarify how its proposed suite of goals relate to the strategic priorities. They should be reworded as goals and consolidated where possible.
- Given the massive program of work underway in the energy sector, a workplan would be useful. The discussion paper includes a useful list of initiatives and identifies how they should be measured and monitored. This should be further developed to include who owns each initiative, who will monitor progress, and to link initiatives back to the strategic priorities.
- The Energy Security Board would be well-placed to provide oversight of the workplan. The ESB should monitor progress on specific initiatives and hold initiative owners to account.
- The AEMC's final advice should be clear-cut and succinct, pitched to the COAG Energy Council and be accessible for a wider audience.

1 Clarify where the review sits and keep it tightly focused

The AEMC should be very clear about where this piece of work sits in the current policy environment. With so much else going on, this piece could help straighten out the key priorities and focus the COAG Energy Council and Energy Security Board (ESB). Alternatively, it could simply add to the noise.

The AEMC's strategic priorities advice should feed into the COAG Energy Council's strategic energy plan (the development of which will be supported by the ESB). The AEMC's strategic priorities advice should therefore be pitched as recommendations to COAG Energy Council.

Given that the AEMC's advice has had to be developed in a short space of time, and further work is expected in developing the strategic energy plan, it would help to identify the missing pieces that still need to be worked through and make a recommendation for who should do that work and when.

1.1 Strategic priorities must be the focus

The AEMC's advice must contain strategic priorities. The proposed suite of goals are not strategic priorities, nor is a list of existing initiatives. We suggest a set of strategic priorities in the following section.

1.2 The proposed goals need clarification

The discussion paper proposes a suite of goals but it is not clear what purpose they serve. The AEMC should clarify how these

goals are to be used going forward and how they relate to the focus of the review; the strategic priorities.

The proposed suite of goals should be consolidated where possible and reworded as goals. For example:

- 'Market reforms', 'accessible information' and 'engagement and participation' are not goals – they are a means rather than an end. Goals might be to maximise access to energy and minimise the cost of energy.
- 'Affordability and efficient prices' should be separate goals – energy affordability is a social goal, while efficient prices is a goal for effective markets and networks.

The AEMC's final advice should be clear-cut and succinct, pitched to the COAG Energy Council and able to be readily communicated to a wider audience.

2 Strategic priorities for the COAG Energy Council

The AEMC should recommend a set of around 5 strategic priorities for the COAG Energy Council to focus on *immediately* as well as another 5 or so *longer-term* priorities. More than this, and they are no longer priorities.

Strategic priorities should be developed by identifying (potential) opportunities and risks over different time horizons e.g. next 5 years, 5-10 years, 10 years +. It would be worth including a longer list of (potential) opportunities and risks from which the recommended strategic priorities were identified.

2.1 Immediate strategic priorities

We recommend five immediate strategic priorities for the COAG Energy Council:

- Restabilise governance of the sector (including role clarity and coordination)
 - The Finkel Review established the new Energy Security Board and recommended new role charters for the three main energy institutions. Clarifying expectations, accountability, coordination and oversight will enable the sector to get on with reforms.
- Agree a credible emissions reduction policy for the sector
 - An orderly transition requires a sense of direction. Agreeing the trajectory and mechanism early will enable the sector to evolve efficiently.

- Fast-track system security improvements and short-term reliability measures
 - Ensure preparations for the coming summers are on track and monitor costs.
- Resolve access to domestic gas supplies
 - Monitor the availability and price of gas and reduce barriers to developing new gas resources locally.
 - Reward consumers for helping to reduce system costs (including demand response, energy efficiency, and distributed energy resources)
 - Identify opportunities to engage households, businesses and communities in reducing system costs and emissions.

2.2 Medium/longer-term strategic areas for further work

We also recommend five longer-term strategic areas for the COAG Energy Council to keep a close eye on:

- Retail prices: await the findings of the ACCC review before determining a priority in this area.
- Network costs and stranded assets: minimise future network costs and improve efficiency of signals through tighter regulation, cost-reflective pricing and developing a write-down policy for network stranded assets.

- Role of transmission: evaluate the cost-effectiveness of inter-region transmission in managing system security, developing renewable energy zones, and as an alternative to new generation.
- Wholesale market design: identify alternative market designs to ensure long-term reliability, and be ready to implement if the existing market fails to deliver sufficient and appropriate investment.
- Distributed energy resources: investigate opportunities to better integrate electric vehicles, solar PV, and batteries in the grid as distributed energy resources grow.

3 Clarify roles and responsibilities going forward

There is a massive program of work underway in the energy sector and it will require disciplined management and coordination over time to be successful.

The discussion paper makes a valuable contribution in beginning to develop a workplan by mapping existing initiatives, and identifying how progress on those initiatives should be measured and monitored. Ideally the workplan of existing initiatives would link back to the strategic priorities and provide further clarity on roles and responsibilities, including:

- Who is accountable for each of the existing initiatives; and
- Who will be measuring and monitoring progress.

The strategic priorities should be owned by the top decision-making body, the COAG Energy Council. We recommend the COAG Energy Council monitors progress towards achieving the strategic priorities and reports back as part of their new annual public report.

Current and agreed initiatives will be important to delivering on the strategic priorities. The Energy Security Board would be well-placed to manage the workplan of existing initiatives and ensure these initiatives contribute to the strategic priorities. The ESB should measure and monitor progress on initiatives, and hold initiative owners to account.

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