

22/11/2018

Dr Kerry Schott AO  
Independent Chair  
Energy Security Board

Lodged via email: [info@esb.org.au](mailto:info@esb.org.au)

Dear Kerry

### **TransGrid response to consultation on metrics for strategic planning**

TransGrid welcomes the opportunity to respond to the Energy Security Board's (ESB's) consultation on proposed metrics for its strategic plan.

TransGrid is the operator and manager of the high voltage transmission network connecting electricity generators, distributors and major end users in New South Wales and the Australian Capital Territory. TransGrid's network is also interconnected to Queensland and Victoria, and is instrumental to an electricity system that allows for interstate energy trading.

Australia is in the midst of an energy transition. This is primarily driven by changing community expectations and choices, advances in renewable energy technologies, retirement of existing generation, and the adjustments required in Australia's economy to meet our international climate change commitments.

#### **Role of the proposed metrics**

We understand the proposed metrics are intended to be tracked in the ESB's annual health of the National Electricity Market (NEM) report, and, based on the results from the report, will inform recommend actions and tools that should form the priorities for the COAG Energy Council and market bodies. Given this, we consider the metrics set out in this consultation are likely to play an important role in setting the priorities and direction for reforms in the energy sector.

We would appreciate further guidance on how this process is proposed to occur in practice, including how this process integrates with, or changes, existing governance arrangements for the energy sector. Further clarity on how the proposed metrics are intended to be calculated, collected and used, would assist stakeholders in understanding their implications and would better inform input on the detail of the metrics.

TransGrid supports a process by policymakers for reviewing the performance of the NEM to help identify where reform efforts may be most appropriate. We provide the following general comments to assist the ESB in its development of appropriate metrics.

#### **More detail is needed to assess the implications of the proposed metrics**

There is some uncertainty regarding the implications of actual performance relative to the proposed metrics, as well as interactions with existing frameworks. This is exemplified by the proposed metrics regarding the security of the power system. The proposed metrics include that the power system be operated within secure limits "for greater than X% of time each year" and that system wide outages (i.e. all network plus generation related outages) be "less than X% per year". There are a number of matters that are uncertain regarding these metrics, for example:

- It is not clear how the precise percentages for these metrics are intended to be set. For example, will the costs of meeting the proposed level of security be factored in? Will they take into account the value that customers place on security?

- It is not clear whether or not it is intended that all system security events will be included in the calculation of system security related outages, given some events are within the control of market participants to prepare for and mitigate, and others are not.
- It is also not clear what the intended implications are of exceeding these metrics as there does not appear to be any direct link to arrangements within the existing rules relating to power system security. For example, the information collected and published relating to these metrics does not appear to be linked to any disclosure frameworks within the rules, and also does not appear to be designed to create any incentives for market participants. However, it is not clear whether or not there is any intent to do so.

These issues are common across a number of proposed metrics.

A number of the proposed metrics could also be expressed more precisely to provide stakeholders with a greater ability to respond.

### **It may not be appropriate for the proposed metrics to set a preferred pathway**

Many of the metrics appear to be expressed in a way that predetermines a path that the ESB considers is appropriate. For example, that the number of market participants should increase year on year, or that energy spend should reduce as a percentage of household disposable income. While generally this may be the case, there are also circumstances that do not follow this rule.

Indeed, a reduction in the number of market participants may be good for consumers if the reduction was a rationalisation of retail brand ownership due to intense price competition, creating a stronger second tier of retailer. Equally, an increased proportion of energy costs as a proportion of household disposable income may not be a poor outcome if the change is driven by factors outside of the energy market, while costs are reducing in real terms within the energy market.

The risk here is that a metric failing to track along the preferred path gives rise to the perception that a regulatory intervention is appropriate, when in fact a deeper consideration of the causes and circumstances may suggest that no intervention (or another more targeted response) is required.

We consider it is more appropriate to track the metrics in a way that does not predetermine the implications of the results. Continuing with the same examples, we consider the metrics should track the number of market participants each year, and energy spend as a percentage of household income (and should not imply that a particular direction for the results is appropriate). The results and their implications can then be properly analysed in context when they are considered in each health of the NEM report.

Some metrics may also not be able to track along the preferred pathway. For example, the creation and improvement of a metric on energy network utilisation is unlikely to be able to occur as utilisation metrics tend to reduce as intermittent supply increases. Furthermore, a high level of network utilisation may limit the ability of new generation to connect and readily access the wholesale market, increasing costs for consumers.

Expressing metrics in a way that predetermines their appropriate path means that some of the metrics appear to set a preferred policy outcome, rather than an objective metric that could help to identify an underlying issue. For example, the proposed metric of “increased transparency in prices and obligations for distributed energy resources connecting to and using the distribution network” appears to track a proposed solution. The underlying issues these solutions are designed to address however relate to the cross-subsidisation of consumers and the power system impacts of distributed energy resources. We consider that the role of the metrics should be to track these underlying issues to help form an evidence base on which to support appropriate and well targeted reforms.

We appreciate the opportunity to comment on this consultation paper. We are happy to engage in further discussions with the ESB to help us provide more detailed input on the proposed metrics. If you would like to discuss this submission, please contact Neil Howes, Acting Head of Public Policy on 02 9284 3748.

Yours faithfully

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