

Building a broad dialogue on power system transformation

*Address by Australian Energy Market Commission Chief Executive Ms Anne Pearson
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Thank you to the Clean Energy Council for inviting me to be part of today's panel discussion.

As this historic move to a lower emissions energy system continues, the concept of social licence is more relevant than ever.

Of course a critical aspect of the social licence relates to how impacted communities may react to new energy infrastructure in their area. The best practice charter released yesterday is to be encouraged, reflecting that energy service providers need to do more than comply with legal requirements.

But I see social licence in energy as a bigger concept. Moving beyond the affected communities, it's also about energy consumers generally having confidence that the challenges of the transition are being addressed. Because energy is an input to every aspect of our personal and working lives. We need it to live comfortably and to support our livelihoods – to do all the things we take for granted – such as keeping us warm and in work.

Consumers want to know that while our generation is becoming cleaner through this technological transformation, it will still be secure, reliable and safe, and affordable.

That was brought home to me this morning when I attended the NSW Energy & Water Ombudsman's 'bring your bill' day in Campsie, Sydney. From 8.30am there was a steady stream of consumers coming through the community centre doors. They were all seeking assistance to understand their consumption, how they could manage it better and how they could manage their bills. The social licence needs to cover these consumers too.

Part of that responsibility falls on governments and regulators –

- to remove barriers to new and innovative technologies, and to provide predictable processes for investors – while maintaining appropriate protections for consumers.
- But importantly, the other part of that responsibility lies with industry – particularly those offering innovative and exciting, but also disruptive, products.

For new technologies and business models to succeed, the power system and the energy market needs to deliver for all customers.

It's no good offering the latest, greatest technology if the power system is not resilient enough to deliver it to consumers.

It's no good having the perfect niche product, if the market is not competitive, or customers are not empowered to choose it.

Just as an aside at the 'bring your bill' session this morning a number of energy service providers also attended, providing direct assistance to consumers on the spot, addressing their concerns. The look of relief on the faces of some individuals after they left the retailers was really something, very powerful indeed. A great way to gain social licence indeed.

This is important. Your success will spring from the successes of the power system and energy market more generally.

As governments and regulators do their bit to create a stable investment environment, you – the industry – need to be part of the big picture discussions and actions to help the power system transform from what it is today, to what we want it to be in the future.

Australian households and businesses are in the midst of these major changes that are underway.

And no longer are they a homogenous group of passive consumers.

Consumers can manage and monitor their consumption and alter their behaviour in response to price and other signals.

They can be power producers – and in the future they will also be able to contribute to strengthening the power system to which they are connected.

But this can only happen if policy and regulatory bodies work with service providers to make consumers feel confident enough to venture into and be part of this new world. There is still a very wide range of experience in the market, whether as an active participant in the way I just outlined, or as a passive consumer in the traditional sense, and sadly there are still the disempowered, most vulnerable consumers which have been of great concern to us.

Consumers need to know that the power will be there when and where they need it because energy is so fundamental to our lives.

To win consumers' confidence we must change how we manage the system.

We need to make sure that the engineering or the technical operation of the power system can accommodate the rising level of renewable.

That isn't easy or straight forward.

That is not to say that change is not welcomed. Just because something is hard doesn't mean it's not a good idea. However, we always need to be careful about how we manage change so least cost solutions can be put in place so consumers don't pay more than necessary for certainty of their power supply.

The appeal of simplistic solutions over pragmatic actions based on rigorous analysis can be strong when things are changing quickly.

And that's where the AEMC plays an important role.

We adapt the regulatory frameworks so that consumers are protected and the cost of transition is kept as low as possible.

We recognise the power system is changing and we are working through what the power system needs to support this.

We are also going through the rules to remove any barriers to new technologies and business models.

We've done a number of things recently - through new rules changes and review - to support this transition and help build consumer confidence that our power system can transform in a way that won't compromise security, reliability and affordability.

Just last week we released a package of reforms that deals with the 'nuts and bolts' stuff that doesn't grab headlines, but is nevertheless vital to supporting the changing generation mix so everyone can be confident about the certainty of electricity supply.

We've also released a package of consumer protection rule changes designed to deliver more affordable energy by giving consumers more control over their energy bills and their plans. And we know how important these changes will be for consumers. Our 2018 Retail competition review, released in June, found consumers are increasingly motivated to change the way they use and access energy to take control of their bills. And they now have the tools to do it.

Also, on 1 July we saw a number of retailers passing on falling wholesale prices - very positive to see but clearly just the start of what retailers need to do to regain the trust of their customers.

Our competition review showed consumer trust in the energy sector at historic lows, driven not just by price but a lack of transparency over pricing.

More broadly, the AEMC's review is a reality check that everyone involved in the energy sector - market bodies, governments and industry (new and established participants) - all need to work better, faster and more creatively to deliver for consumers.

For the AEMC, it highlights why we must remain focussed on the bottom line objective of providing the best outcome for consumers in all of our rule changes and reviews, and we need to avoid introducing measures that impose unnecessary costs on families and businesses.

So that's point one. Building consumer confidence across all aspects of the energy supply chains, builds social licence – it's a necessary foundation for it.

This brings me to point two.

As the rule maker, a key part of what I believe underpins our social licence to operate in energy markets is stakeholder engagement.

Stakeholder engagement is at the heart of the AEMC's work.

In this rapidly changing environment, the information we gain through effective stakeholder engagement enables us to be more creative and flexible in the way we adapt our frameworks through rule making.

While many of the issues we deal with are undoubtedly complex and granular in the technical sense, it is vital that stakeholders understand how the energy market operates, why it is regulated the way it is, and the reasons for our decisions and recommendations. This helps inform their feedback to us.

To do this, we aim to show how our work fits into the bigger picture, and how it aligns with work being undertaken by the other market bodies – the Australian Energy Regulator, Australian Energy Market Operator and the Energy Security Board.

We strive to present our advice and reports in ways that are clear, concise and easily understandable.

This makes it easier for stakeholders to challenge and test our thinking – which we encourage them to do.

Given our statutory role, the AEMC must provide a fresh, evidence-informed voice in the public conversation about energy. Responding to stakeholder feedback, we are communicating in ways which are more accessible such as webcasts, workshops, infographics, twitter.

It's also worth drawing attention to the fact that our system here in Australia offers everyone the opportunity to help design new rules for energy markets. Indeed it assumes that will be the case.

Anyone, from industry to governments, to private individuals, can submit a rule change request.

In fact, a number of our consumer protection rule changes were submitted by private individuals.

And one of the most fundamental changes to the rules - Five minute settlement - was proposed by Sun Metals, a zinc refinery.

There are two things that I would say to any stakeholder:

- If you see a problem with the rules and you think you have a solution – put in a rule change request. Even better, ring us and talk to us about it first so we can give you a sense of the type of reasoning and evidence that helps us assess whether the changes requested would be in the long term interests of consumers.
- Second; get involved in our consultation processes.

Your involvement helps us develop better and longer lasting frameworks it's a much richer, informed process when we have your diverse input. The process relies on stakeholders to highlight issues, explain technicalities and offer up solutions.

With the help of your critical input, we continue to adapt the regulatory framework to reflect the sector's experience and growing knowledge about innovations like demand management options and the ability of virtual power plants to improve the stability of electricity supply.

In the same way, we get consumer groups involved in making rules about consumer protections.

This open, transparent and consultative framework was set up to give everyone an opportunity to be involved in reform.

It has the added bonus of providing a level of investment certainty – everyone knows we're not going to secretly go and change the rules.

And while not everyone will always agree with the final decisions we make, we will always justify these so you know why we've landed on a specific outcome tailored to address specific problems in least cost ways.

So in my view, it's a combination of things that build social licence in the energy sector:

We have to build confidence in energy markets by delivering what consumers want, and what the system needs, as the power system changes.

And we have to actively engaging with stakeholders on how the market develops.

This will underpin community acceptance of the changes underway and ultimately the social licence to operate to provide that fundamental building block of modern life – a stable energy supply.

Thank you.

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