



CEDA - Managing our Energy Transition: Speech notes

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Thank you, Andrew, for the kind introduction and to CEDA for the opportunity to be a part of this important discussion.

I am going to make a few sobering points right up front because I want to focus most of my remarks on the future, and explain why despite where we are now, I am intensely optimistic about the next 10, 20, 30 years - because that's how long the deep transition of the energy sector is going to take.

Let me start with the ACCC Electricity Price Graph which is the context for current community reaction to the energy sector, which creates the context for current political and regulatory reaction to the energy sector.

You see from the graph - prices have far outstripped wages growth and economy-wide inflation - building pressure over a 10 year period.

There would be businesses in this room that have ridden this curve of electricity price and the similar one for gas price rises.

The ACCC Retail Electricity Price Inquiry unpacks the reasons in detail. If the package of 56 recommendations is implemented, the prize is a 25% reduction in consumer and small business electricity bills.

I'd like you to hold that thought - one inquiry with 56 recommendations to be implemented.

I know the price curve is not new news to you, but we need to resist 'issue fatigue' because energy affordability for households and business remains a very live issue in the community.

Just last week – when we asked about the changes in the economy that were affecting them, people – unprompted and consistently – singled-out energy prices as part of a broader concern about cost of living.

These same consumers finding themselves asking questions about other services they rely on – as shocking issues in financial services were brought to light through the Hayne Royal Commission. And the unhappy phrase *fee for no service* entered everyday discussions.

Having made these points, my optimism for the future of the sector is driven by the possibilities that technology puts before us.

And the leadership we are starting to see from the sector through The Energy Charter.

Let me give you my conclusion at the beginning of my remarks:

I am intensely optimistic about Australia's Energy Future and the outcomes we can achieve together:

If the energy sector resets and remakes its relationship with households, business and the community in general, if we make the most of the opportunities that new technologies are creating, if we get the culture, policy and incentives right through leadership in the sector - in businesses, in government and in the governance arms of the energy sector.

Technology is actually part of the answer, not the problem but, it is bringing significant changes that the sector has to learn how to manage: from a few large things to many many small things. From one way traffic to two way traffic. From "More Capacity" being the only answer to very fine risk assessment and nuanced control decisions.

These are the Technology Issues that Dr Alan Finkel unpacked in his major Report to the COAG Energy Ministers and to COAG Leaders.

Finkel's Independent Review into the Future Security of the National Electricity Market - Blueprint for the Future - is a Roadmap through the technology change that the sector and its customers are facing.

That Report has 50 recommendations, of which 49 were accepted and the last one to bring energy and emissions decisions together is still a work in progress.

I should add that the perturbations about targets for the next decade sit in a context where State Governments have already finalised or for WA and NT are in the process of discussing goals of net zero emissions by 2050. It is important to see the perturbations in the context of that BIGGER PATTERN.

With the ACCC recommendations at 56 and the Finkel Roadmap recommendations at 50 - you can start to size the task ahead of the energy sector in managing the transition!

And this is all going to happen in a world of internet time. From a long-term stable environment to the immediacy of internet time.

With significant culture change to be made as well:

From consumers being seen as Pariahs in an elegant Engineering system - there's a bit of that still going on! To Pawns in an elegant Economics system - there's a bit of that still going on! To Partners in a system that meets their Expectations.

So what are consumers saying...

- "I have experience in other sectors that are much more up to date than the energy sector"
- "I want to pay less for electricity ...and gas...I will invest to get this result"
- "I am prepared to work with the sector to reduce use..."

But and it's an important BUT for us in this room to consider - not at risk to themselves.

I am minded about this because of comments from the Fire Brigade in the Illawarra only yesterday:

Illawarra Fire and Rescue duty commander said the occupants had been watching the State of Origin and were awake when the gas cannister inside the portable heater combusted.

"If this had happened three or four hours later in the evening, we might have been talking about a more tragic outcome."

He said he was worried that the use of unconventional heating methods was on the rise.

"It's because of the rising cost of electricity and gas," he said.

"People can't afford heating and they are turning to cheaper methods of heating and the result can be fatal."

In the last couple of summers, when asked, people – en masse – have responded to calls, using social media and other means, from Minister Harwin in this state and ministers in Victoria and the ACT to reduce their use - if they can.

Freeing-up hundreds of megawatts in headroom for the system – the equivalent to turning on good-sized gas-fired power stations.

This reflects what I think is a level of public-mindedness, and practicality in the Australian community - that I think is systematically under-appreciated in our public debate, and in the discussions in our corporate board-rooms.

In a market consumers feel is not offering the solutions that deeply pragmatic Australians are looking for, they are essentially go around it, by installing solar, and increasingly batteries, at breath-taking rates.

If the SCG was the national energy market, we would say the spectators have jumped the fence, and stormed the field, and are not going back to their seats, however much the ref shouts at them!

This is not a picture of an Australian community that is resisting change or has an aversion to 'new'.

We must tap into this incredible resource if we are to transform the energy system - if we are to generate the community support and political consensus needed to manage the transition in an orderly way.

I need to very quickly add this is not easy work.

The energy sector is managing a paradigm shift and going through the cycle associated with such fundamental change: We're right in the middle of disorientation.

Business Leaders through the Energy Charter, and Political Leaders through COAG Energy Council will need to work together in the facilitation stage to shift the sector to re-orientation stage...

Where we would have a sector focused on meeting business, consumer and community expectations for a service you can't do without power at home or in business, while running sustainable businesses with good returns for the investors we need.

We have seen this sort of change in other sectors - music is just one example

Deep change is difficult and the future is different but bright when the reset is done.

Based on what consumers are telling us, we need to move beyond trilemma thinking which sets up unsuccessful discussions in binary terms and leads to never ending modelling wars about the "one right answer" ...landing jumbos on pin heads is not something we have time for.

We want to see the argument reframed to what consumers want. Energy that is:

- Affordable - price is the price of regaining trust
- Individualised - consumers as partners in the system
- Optimised - reliability at value for consumers

Let me illustrate how this reframing works through examples

In 2017, in the old mode of just passing costs through to consumers, many consumers - including in this room - found themselves with double digit price rises of up to 20% for an essential service. Could you choose to go without the lights or your refrigerator in response to that price signal? Or did you just have to pay?

In 2018, retail prices were contained...a reflection of sharper focus on consumer impacts and the beginning of a sector reset. This was not easy for these companies but it was absolutely necessary. Price is the Price of Regaining Trust at the moment.

In 2019, we are at the point right now where retailers are considering price changes for 1 July. We will see whether the focus is still on affordability for consumers.

The difficulty of these decisions cannot be underestimated and it is why we need the sector and governments to work together not at cross purposes.

The time is over for electricity bills to be used as a revenue raising vehicle without explicit discussion with the community.

The ACCC identified growth in government scheme related costs as a major concern in its report. The work remains to be done to bring these costs under control and off electricity bills.

I was pleased to see that one of the Minister's early decisions has been to extend the New South Wales Energy Switch tool from electricity to gas as well.

Energy Switch is a service that is an extraordinarily simple and user-friendly tool for consumers. The result of hard thinking and a focus on consumer outcomes.

Rather than needing to make sense of your bill, rather than needing to determine what a 'controlled load is' and whether your hot water service is afflicted by this condition, you simply upload a pdf of your bill to the Service New South Wales website, and it instantaneously gives you advice about deals and prices.

This is a contemporary individualised user experience - belying the cutting-edge behavioural insights and advanced digital technology sitting behind it.

An initiative that showcases hard, creative thinking to deliver an individualised experience.

Having put Minister Kean in the limelight, I'm now going to put Paul in the limelight by way of example of optimised.

We and a group of consumer advocates: AIGroup, Energy Users Association of Australia and the Public Interest Advocacy Centre are working directly and closely with Transgrid on a major capital project to upgrade transmission capacity into the Sydney CBD. The project is going to cost consumers hundreds of millions of dollars and will deliver better reliability for Sydney for decades into the future.

And there's the rub of the old way of thinking - more reliability later for more cost now...what do we expect consumers at the moment to think about that!

So we talked....and talked...and talked...and found the issue that was at the core of all this was timing risk.

The response is an optimising response - Transgrid's very senior and deeply experienced network planning folks did some much harder thinking about how to get the reliability consumers will need, at costs they can afford. The project now reflects this optimising principle.

The second response was to invite continuing discussion through a ground-breaking Stakeholder Monitoring Committee which meets regularly.

At the most recent meeting the discussion was how Transgrid proposed to deal with labor cost issues arising from project delivery difficulties identified in the detailed planning. Again senior Transgrid planning and project management staff resolved this matter with HARD thinking and a focus on consumer outcomes. The project proceeds at No Additional cost to consumers.

It is just as well that we have built this capacity for direct talking focused on consumer outcomes, because the transition of the energy sector will involve many such projects where the costs to consumers will be carried for decades.

And we have no headroom in consumer budgets for anything other than longterm decisions that reflect an approach of:

- Not one dollar more than necessary
- Not one day earlier than needed.

Now to The Energy Charter.

Moving through the paradigm shift that is the energy transition is going to mean we need to line up

- Vision
- Skills
- Incentives
- Resources
- Actions

We see The Energy Charter as a vehicle for doing just that.

Our support for the Energy Charter and its signatories rests on the issues consumers identify for us in our 6 monthly Energy Consumer Sentiment Survey.

Unsurprisingly in a high price environment, people tell us they are not confident that the sector – the businesses, the policy makers and the regulators – are working in their interests now, or that they will work for them in the future.

The Energy Charter provides an opportunity to set this right.

The Energy Charter was launched in January this year so at this stage this is a story of ‘what can be’ rather than ‘what is’.

With this in mind, and from a consumer perspective, the important thing to explore with you is our expectations for The Energy Charter: its potential to contribute to more affordable energy and accordingly, more comfortable homes and competitive businesses.

I want to introduce The Energy Charter by describing the governance scaffolding - for two reasons.

Firstly, doing it this way will help you form a rough mental picture of what this initiative is and the nature of the leadership commitment by the signatories.

I should briefly add my public congratulations to the early signatories. We are working with a group of leaders who want to raise the bar by changing the culture of their businesses and lift the sights of their organisations.

The second reason to focus on governance is to emphasise the point that The Energy Charter will live and die by the integrity and independence of the governance and the administration underpinning it.

Any sense that this is an exercise in public relations that seeks only to paper over cracks rather than address fundamental issues, will be fatal.

The Australian community's finely-tuned nose for inauthenticity will smell it a mile off...

The Energy Charter is a principles-based, disclosure and public reporting regime, that from a governance perspective, shares many features with the ASX Corporate Governance Principles Regime.

It is governed by a Council of the member CEOs and supported by a small secretariat.

Working groups comprising of people from member companies undertake the work of the Energy Charter on various matters.

At last count 18 companies from across the energy supply chain – generators, transmission and distribution network companies, and retailers – have signed on to Work Together under the framework of The Energy Charter to Deliver Energy for a Better Australia.

This includes companies like AGL, Energy Australia and Origin, Powershop, Paul's company Transgrid, Ausgrid, Endeavour and Essential here in NSW, Stanwell in Queensland and gas network business APA Group.

As we speak, these companies are preparing to make their first disclosures in September: answering questions that flow from five core principles at the heart of the document:

1. To what extent are customers really at the centre of our business?
2. How is the business contributing to energy affordability for customers?
3. What are we doing to provide energy, safely, sustainably and reliably?
4. What is the experience of customers who rely on our services?
5. How are we supporting customers facing vulnerable circumstances?

These disclosures will be assessed by an independent Accountability Panel chaired by Dr Wendy Craik AM, with the Panel to publish a report evaluating those disclosures by late November 2019.

Disclosures and a Report that should set a clear new baseline for conduct and performance.

Disclosures and a Report that should shed new light on what the signatories see their purpose as, and how they're working to that purpose.

Disclosures and a Report that should provide a new perspective on the transformation challenge.

The Energy Charter is an industry initiative that we support.

Energy Consumers Australia is playing a role in the governance of the Energy Charter in this initial phase as the 'host' of the Accountability Panel.

A range of other consumer and user groups provided feedback on the design last year and are now following the operation of the Energy Charter Accountability Phase through an End User Consultative Group.

This is the basis for a new relationship, and cultural and system transformation is the Big Prize.

What draws Energy Consumers Australia and consumer organisations into this process – is the potential for it to create a virtuous cycle of disclosure, reporting, and reflection.

Disclosure, reporting and reflection – within companies and across the sector – that over time, can fundamentally change the culture of the energy sector and transform the system and the market.

This is obviously quite a leap - to go from accountability now to fundamental, long-term cultural and systemic transformation.

But it is Ambition to meet Expectation that I see as absolutely in-line with the broader debate playing out in the community and corporate governance circles – prompted by Hayne, but also responding to the ‘trust crisis’ that Edelman has been documenting in its annual barometer over several years, and the very significant implications to the energy sector of embedding management of climate risk in business generally, including now through mandated reporting against accounting and audit standards.

This discussion is increasingly looking like a “not-so quiet” revolution, it is one which has now broken-out in the pages of the Australian Institute of Company Directors Magazine.

In the May edition Elizabeth Bryan AM, Chair of IAG provided one of the clearest and best articulations of the broader leadership challenge for business:

There has been a shift in expectations and in the way people think about the role of business and it’s very fundamental ... Directors are going to have to work in the weeds and in the details to get things right.

We lived in an environment where the management of companies was driven down to almost a single point of success, which was about return to shareholders.

The change point we are at now, and the world we are moving into, is not so simple.

I think there are two points here.

One, the threshold ‘why’ questions about meeting community expectations that we expect Energy Charter signatories to engage with in their first disclosures.

And a deeper point about the ‘how’.

With new expectations and new risks (such as climate change) challenging fundamental assumptions about how things work.

Management teams and directors as leaders will need to get their hands dirty, get into the detail, to reinvent the business from the bottom-up.

This does raise an important question for the sector, and that is whether Management Teams and Boards have the skills and expertise to manage a deep and dynamic transformation from a stable and predictable environment.

To give you a very Sydney example - what we’re trying to do is change a tyre on a bi-articulated “bendy” bus travelling at speed with 200 passengers depending on it to get to the State of Origin match and we are doing this while we are travelling across the harbour bridge at night in a small lane that seemed just fine for a few cars in 1932.

Do the drivers, Management and Boards, have the skills they need to get us to the match?

As I said at the beginning I am intensely optimistic about the next 10, 20, 30 years - that’s how long the deep transition of the energy sector is going to take.

I am intensely optimistic about Australia’s Energy Future and the outcomes we can achieve together:

If the energy sector resets and remakes its relationship with households, business and the community in general, if we make the most of the opportunities that new technologies are creating, if we get the

culture, policy and incentives RIGHT through leadership in government, in the businesses, and in the governance arms of the energy sector.

Important transformation work is underway already through the evolving Integrated System Plan. The Post 2025 Market Design work. The National Hydrogen Strategy.

There is more to be done and the commitment I am seeing emerge from the businesses needs to be supported by longer term policy frameworks from government to get the right result,

From a sector that is essential to the competitive businesses and comfortable homes that must be part of a successful future for Australia.

THANK YOU.

ENDS