



EASTERN ALLIANCE FOR  
GREENHOUSE ACTION

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By email: [NEMSecurityReview@environment.gov.au](mailto:NEMSecurityReview@environment.gov.au)

21 February 2017

Dear Dr Finkel,

**Re: Independent Review into the Future Security of the  
National Electricity Market Preliminary Report**

The Eastern Alliance for Greenhouse Action (EAGA) welcomes the opportunity to respond to the *Preliminary Report of the Independent Review into the Future Security of the National Electricity Market (NEM)*. EAGA is a formal Alliance of seven councils in Melbourne's East, comprising:

- City of Boroondara
- Knox City Council
- Maroondah City Council
- City of Monash
- City of Stonnington
- Whitehorse City Council
- Yarra Ranges Shire Council

EAGA is committed to delivering mitigation and adaptation projects and advocating for initiatives that support sustainable, low carbon communities. We consider that this review provides a unique opportunity to establish a comprehensive and integrated suite of reforms to ensure an efficient and timely transition to a decentralised, resilient, zero emissions energy system. Whilst the preliminary report provides robust discussion of the challenges facing the NEM, we urge the review panel to consider the following recommendations in developing the final report:

***1. Cross-party support be identified as the primary precondition for success***

Consumers are already paying the price for the partisan politics that has hindered critical reforms in the energy sector. The preliminary report highlights the impact that this has had on the investment in

renewable energy, which dropped by 52 per cent between 2013 and 2014 and has not yet recovered to the level required to satisfy the Renewable Energy Target (RET).<sup>1</sup>

There is broad consensus across the country that partisan energy politics must immediately cease. This was recently demonstrated in the joint statement from 18 groups representing Australian communities, including civil society, households, workers, investors, business energy users and energy suppliers, calling for a bipartisan approach to reform in the NEM.<sup>2</sup> The cost of inaction is real and can be quantified. EAGA recommends that these costs should be identified in the final report.

## ***2. Emphasise the need to build resilience to an increase in extreme weather events***

It is important that the consideration of “security” and “reliability” be presented within the context of changing climate and an increasing frequency of extreme weather events. Many of the risks from heatwaves, bushfires and storm events are exacerbated by power failures. Additionally these risks also threaten energy security. These risks have been realised in recent extreme weather events and act to further threaten vulnerable members of the community and disrupt council business continuity. To address these risks, EAGA has developed a regional climate change adaptation plan that identifies ‘improving the resilience of the region’s electricity infrastructure’ as one of ten key response actions.<sup>3</sup> EAGA’s councils are already proactively engaging with distribution business to pursue related opportunities, however the current regulatory framework provides no incentive for cross sector initiatives

EAGA understands that the Energy Networks Association (ENA) has developed an industry methodology and tools to support members in managing climate risk and resilience across core network business activities and to ensure consistency in factoring climate change risk in future network investment decisions.<sup>4</sup> It is not clear to us if any of the networks have used the manual to develop their own climate change risk assessments, and also how this will orientate their business decisions towards distributed generation.

We recommend that climate change risk assessments and adaptation plans be a requirement on every electricity network in Australia. This should be an annual process that is undertaken in consultation with the communities in each network area and transparently published as an appendix to distributor’s Annual Network Planning reports. The process should also seek to identify actions that can be undertaken in partnership with other stakeholders not just rely on traditional network solutions of infrastructure upgrades. This process may have the added advantage of improving the demand forecasting ability of energy providers and enhancing their capacity to more proactively prepare and respond to peak demand events.

## ***3. Ensure a prominent role for energy efficiency and productivity in addressing the “energy trilemma”***

The Australian Government has set a target to improve Australia’s energy productivity by 40 per cent by 2030.<sup>5</sup> Despite the preliminary report emphasising the importance of integrating energy and emission reduction policies, it contains little reference to the ability of energy efficiency (and the National Energy Productivity Plan Measures) to simultaneously contribute to a high level of energy

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<sup>1</sup> Preliminary Report: Independent Review into the Future Security of the National Electricity Market, p.22

<sup>2</sup> [www.energynetworks.com.au/sites/default/files/joint\\_statement\\_energy\\_-\\_130217\\_-\\_final.pdf](http://www.energynetworks.com.au/sites/default/files/joint_statement_energy_-_130217_-_final.pdf)

<sup>3</sup> <https://eaga.com.au/wp-content/uploads/FINAL-ROADMAP-web1.pdf>

<sup>4</sup> [www.energynetworks.com.au/climate-change-adaptation](http://www.energynetworks.com.au/climate-change-adaptation)

<sup>5</sup> National Energy Productivity Plan 2015–2030

security and reliability, universal access to affordable energy services and reduce emissions. This deserves far greater consideration in the final report.

The NEM's various rule making bodies have historically been preoccupied with the assessment of the 'trade-offs' of technology integration, rather than focusing on the win-win-win outcomes of energy efficiency. Cultural change in the NEM's institutions is required to avoid further paralysis by analysis and delays in reform (see Section 4). EAGA therefore recommends that the cross-sector and sector-specific policies defined by the Energy Efficiency Council<sup>6</sup> be objectively assessed against 'technology integration' options within the final report.

#### ***4. Change the National Energy Market Objective (NEO) and overhaul the market's governance arrangements to fast track decision making***

EAGA recommends that the National Electricity Objective (NEO) be redrawn as it is no longer appropriate to the current and future Australian energy market. The NEO currently does not recognise the interests of the community at large and confines consumer interests mainly to economic interest. The focus on 'price' rather than the 'total cost' is often at odds with the 'long term interest of consumers' with respect to environmental and social sustainability in the context of climate change. It has driven short term decision-making throughout the market's various institutions. The interpretation of 'efficient investment' has resulted in unbalanced rule-making and a market bias that supports centralised infrastructure rather than distributed energy or other non-network solutions. A new NEO should therefore reflect broader consumer interests, including explicit environmental (i.e. emission reductions) and social outcomes, as in comparable international jurisdictions.

The slow pace of Australian Energy Market Commission (AEMC) in implementing reform was recently highlighted by the Productivity Commission which described the AEMC as 'a graveyard for reform proposals'.<sup>7</sup> The separation of the role of rule-making (AEMC) and regulation (Australian Energy Regulator) under different legislation and different accountabilities has resulted in unnecessary and stifling complexity. There is no international precedent for these related functions to reside in different institutions. EAGA recommends consolidating the rule making and regulation (including generation regulation) in the one institution. This arrangement would be more efficient, more effective, provide greater transparency.

The key to effective reform in the governance arrangements of the NEM relies on actively engaging communities in designing the energy future they want. This means enhancing consumer representation at the COAG Energy Council and across all energy market institutions. Whilst the establishment of Energy Consumers Australia (ECA) is a step in the right direction, consumers are disenfranchised in almost every aspect of the Australian energy market and have no representation in decision-making processes in the NEM. This should be addressed by expanding the role of the AEMC in strategic policy advice to facilitate better energy market policy development at the COAG Energy Council. The number of AEMC commissioners should also be increased to include representations from consumers and the clean energy sector.

#### ***5. Align energy and climate policy to ensure the electricity sector does its fair share in assisting Australia to meet its international obligations***

Pragmatism and the need for urgent action underpin the need to build on existing policy frameworks to drive Australia's emission trajectory in the right direction. In the short term, this could be achieved through strengthening the existing 'Safeguard Mechanism' so that it no longer merely prevents

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<sup>6</sup> Australian Energy Efficiency Policy Handbook, Energy Efficiency Council, July 2016

<sup>7</sup> Productivity Commission 2013, Electricity Network Regulatory Frameworks, Report No. 62, Canberra

emissions from going up, but drives them down in line with agreed targets. By tightening the emission limits ('baselines'), the country's largest emitters will be forced to reduce their emissions. This crucial first step can establish a platform that can be modified over time to include more emitters and tightened baselines. This should be complemented by extending the Renewable Energy Target to ensure the safeguard does not provide a default investment bias to gas fired generation and expose consumers to commodity market price risks. An emission intensity scheme is likely to provide a similar bias towards gas according to the AEMC.<sup>8</sup> EAGA therefore urges the Government to develop a clear plan, underpinned by a suite of complementary policy measures, that maps out how Australia can meet its Paris obligations and transition the energy sector to zero emissions by 2050.

## **6. Accelerate transition through incentives and smart pricing**

Under existing regulatory arrangements, there are no mechanisms for local governments (and others) to share energy across property boundaries. Instead, councils are incentivised to duplicate electricity network infrastructure through building private wires across property boundaries to share electricity with neighbours. Many councils have exhausted the potential for solar PV on their own sites where they prioritise size systems for self-consumption only. Councils own many buildings with large roof spaces that have little daytime energy demand, despite nearby facilities with poor solar potential having high demand.

Current pricing structures favour behind the meter consumption, with exports only receiving a very small feed in tariff. This limits the uptake of new technologies (such as battery storage) and in-turn restricts the ability of these technologies to provide security of supply and other services to the grid. In our view, it is critical that a mechanism is developed to incentivise customers to use the existing electricity network to share local energy and incentivise forms of distributed generation that can be optimised for network value (i.e. micro grids with storage that address network constraints or reduce bush fire risk). If designed correctly, consumers can be supported to generate and share their own low carbon energy in new ways whilst minimising risks of mass defection from the grid. These risks should not be underestimated and could result in particularly poor social, environmental and economic outcomes for all consumers.

We consider the electricity network to be an important asset in a low carbon energy future, but reform is required to facilitate optimal integration of new energy technologies and efficient utilisation of existing assets. Unfortunately, a key opportunity for progress was recently lost when the AEMC determined that it would not implement '*local generation network credits*' into the National Electricity Rules (NER). We therefore recommend that the AEMC reconsider this determination following the release of the review panel's final report.

Furthermore, recent electricity network pricing determinations have demonstrated the lack of support for demand management initiatives by the Australian Energy Regulator (AER). This has led to only a small allowance being provided to network businesses to pilot and trial projects to fully assess the costs and benefits of network innovations via the Demand Management Incentive Scheme (DMIS). On average, allowances under the scheme equate to just 0.09% of the total revenue allowances for each DNSP.

## **7. Harmonise land use planning and network planning**

To fast track the transition to a distributed energy system, energy providers must build new capabilities that enable them to capture and scale up new opportunities and tap into unconventional

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<sup>8</sup> AEMC 2016, Integration of energy and emissions reduction policy, Report, 09 December 2016, Sydney

markets. This will require establishing business models with stakeholders with whom they have previously had little interaction, including local government authorities.

Under Victoria's planning system local councils and the State Government develop planning schemes to control land use and development. Currently, electricity network planning and land-use planning occur in isolation, meaning long term, viable and sustainable options for integrating demand and supply side opportunities are lost, resulting in inefficient investment and higher prices for consumers. Whilst both land use planning schemes and the national energy market objectives intend to serve the long term interest of the community, they cannot do so whilst operating in isolation. Despite the implications land use planning has for local energy use and demand patterns, existing regulatory requirements do not require either sector to synchronise their respective planning processes.

EAGA therefore supports the introduction of regulatory and market based approaches to ensure coordinated planning the delivers smarter, tailored integrated energy solutions that alleviate costs to consumers. This will also ensure that consumers have equitable access to a range of emerging energy services and are not constrained by outdated traditional market models.

### **8. Establish cross-sector policies and mechanisms that support vulnerable consumers**

Low income households are particularly vulnerable to climate change, with high power prices and outages during heatwave events and other extreme events leading to higher morbidity and mortality risks, particularly for the aged. There is mounting evidence to demonstrate that the installation of solar PV supports greater capacity for cooling in households where energy costs represent a large proportion of ongoing living costs. The ability of the technology to provide low cost energy throughout the day means these householders can cool their homes without fear of 'price shock'. EAGA is currently delivering a program with three other greenhouse alliances to deliver solar PV for low income households to reduce dependency on centralised electricity. This program is aiming to improve access to clean energy for low income households through innovative delivery models and cross sector partnership with the finance sector. The scope of this program could be extended beyond the current twenty participating municipalities if the right cross-sector policies and mechanisms are established.

EAGA is willing to work with review panel to support equitable and consistent approaches to an integrated and sustainable energy system which represent the best value proposition for the community, industry and all levels of Government. Should you have queries or questions relating to this letter, please contact Scott McKenry, EAGA Executive Officer on [scott.mckenry@maroonodah.vic.go.au](mailto:scott.mckenry@maroonodah.vic.go.au) or 03 9298 4250.

Kind regards,



Cr John Mortimore  
Executive Committee Chair  
Eastern Alliance for Greenhouse Action  
Councillor, Knox City Council



*This submission has been approved through EAGA's formal governance structure as described in the EAGA Memorandum of Understanding 2016-17. The submission may not have been formally considered by individual member councils.*