

CEO MESSAGE



We have started the year by leaping out of the blocks with multiple submissions on a range of issues that will have fundamental impacts on energy users including the

proposed enhancement to the RERT, the AEMC CoGaTI Consultation Paper and submissions to the Project Marinus and Energy Connect interconnector consultations. A full list of EUAA submissions are available on our website [here](#).

Consultation on network pricing resets, the retailer reliability obligation and gas market reform have also been key areas of work over the past few months and we will continue to keep focused on these and other critical issues in the months ahead.

We are looking forward to our [National Conference](#). We have a slightly different format this year and a sensational line up of speakers across two days. We'll be covering a range of important issues so if you haven't already looked into this event I encourage you to do so. I hope to see many of you in Melbourne on May 1 and 2 at Marvel Stadium.

Two important events have taken place in the last quarter – a breakfast briefing with the SA Energy Minister and a corresponding event with the Tasmania Energy Minister. Thank you to Finlayson's and TasNetworks for hosting these events which provided an opportunity for a candid conversation and update from state governments on local issues that will have national impacts on energy markets.

State political issues will of course have flow on effects on the looming Federal election so it's going to be a busy and important year ahead. We encourage you to be actively engaged with us as we work to ensure EUAA member issues are a key focus for all political parties.

Regards,
Andrew.

EUAA NATIONAL GAS STRATEGY DISCUSSION PAPER

The EUAA National Gas Strategy Discussion Paper has been developed to highlight the ongoing crisis in the east coast gas market and draw the focus back on to developing solutions to this unfolding disaster. Thank you to those members that provided feedback to aid in its development.

The EUAA formally released the paper on 22 April, ahead of our National Conference. If you haven't read it yet, we encourage you to do so. It can be found on our website [here](#).

You may have seen some commentary on it with a range of views being expressed about some of the options put forward. Most of the focus of the commentary has been on the proposal to consider developing a government supported gas company in order to support more competition and fast track new gas into the market.

The discussion paper is designed to elicit conversation and encourage deeper consideration of the challenges being faced so we welcome all commentary on the paper.

Some of the ideas in this paper would not have been considered by the EUAA a couple of years ago. However, we now feel that the gas crisis is at such a drastic stage that greater government intervention may be the only way that we can begin to turn the tide.

The important thing is that there is a solution focused discussion taking place as only then can we begin to find solutions to the deep issues in the east coast gas market.

Our upcoming National Conference will include a half day focus on gas on May 2 which kicks off with the ACCC who will be launching their latest gas report. If you have interests in gas we encourage you to attend and participate in the discussion that takes place.

Member views are always welcome and we encourage you to actively engage with us as we continue to pursue a more equitable east coast gas market for energy users.

UPCOMING EVENTS

- National Conference, May 1&2, Marvel Stadium, Melbourne. [Visit our website](#) to register and download the program, or email euaa@euaa.com.au for more information.

POLICY AND POLITICAL UPDATE

With a Federal Election called for May 18 we are staying abreast of political announcements on proposed energy policy, especially climate change policy and its potential impact. However, we do not expect significant detail to emerge so it is critical that we remain focused on reviews, inquiries and other consultations taking place as the outcomes of these can have a material impact on energy bills.

Attached to this update is a summary of the key submissions and activities we have participated in, along with the focus areas in the coming months.

We strongly encourage members to get involved in committees and to be actively engaged so we can effectively reflect your views in EUAA submissions and in our political advocacy. This core area of work is an important member service that enables you to have an extra pair of hands to get across what are often complex issues. As part of this we also provide timely summaries of the issue or review taking place along with highlighting potential benefits, risks and financial impacts.

EUAA submissions are also available on our website for your review.

All questions about our submissions can be directed to Mark Grenning, EUAA Policy Director via email: mark.grenning@euaa.com.au

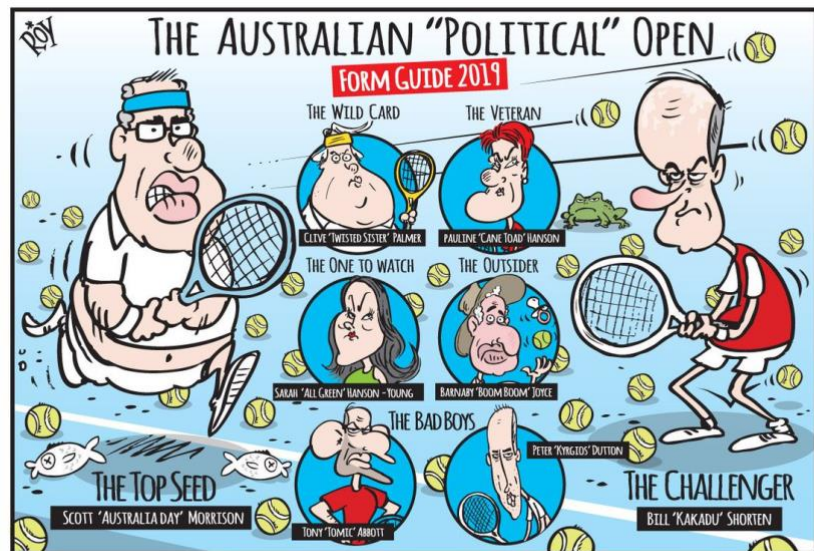


Image 1 - source @chrisroytaylor

As part of this we also provide timely summaries of the issue or review taking place along with highlighting potential benefits, risks and financial impacts.

CONGRATULATIONS ON RECENT ENERGY NETWORKS AUSTRALIA AWARDS

We'd like to congratulate award winners at the recent Energy Networks' Awards recognising Consumer Engagement, Industry Innovation and Industry Contribution. Great to see members and Corporate Partners recognised in this way.

Consumer Engagement

Essential Energy received the Consumer Engagement Award for their approach to involving customers in developing its funding submission to the Australian Energy Regulator (AER). Their approach has been recognised as a best practice model, winning the 2018 Energy Network Consumer Engagement Award at the annual Energy Networks Australia dinner in Canberra earlier this year.

Industry Innovation

Tasnetworks were awarded for their Bruny Island Battery Trial for the different ways they had shown leadership and helped solve some of the industry's most complex challenges.

Industry Contribution

Powerlink's General Manager Network Regulation, Jennifer Harris, winner of the 2018 Industry Contribution Award, for her substantial contribution to the industry over several years.

NEW MEMBER UPDATE

We're pleased to extend a warm welcome to new Corporate Partners and Members joining the EUAA family this year.

Corporate Partners

[Ausnet Services](#)

[Ausgrid](#)

Members

[Innogy](#)

[Canadian Solar](#)

[Energy Networks Australia](#)

[Green Peak Energy](#)

[AGL](#)

[City 4 Greater Shepparton](#)

[Macquarie Group Ltd](#)

EUAA EXTERNAL ACTIVITIES

Part of our work includes participating in events that expand our reach and exposure while also building our networks. Recently we have participated in;

Grow Greater Shepparton Economic Forum. Hosted by C4GS, Shepparton City Council and NAB regional & Agri Business, this event had a focus on the Economic landscape both globally and regionally. EUAA CEO Andrew Richards presented on the topic of "the State of the Energy Markets" as part of our partnership with the City 4 Greater Shepparton. Participants in the forum included regional food processing companies with operations in the area..

Innovation X-Change: The Customer-centred transformation by A2EP. A day of engagement with International and local leaders who bring unique customer experience perspectives to the energy revolution. A2EP and UTS showcase technologies & enterprises that are transforming energy. Driving innovation through customer centred approach. EUAA CEO Andrew Richards give a "State of the Energy Markets" presentation and participated in a panel session.

EUAA EVENTS UPDATE

BREAKFAST BRIEFING SERIES

After the success of our Breakfast Briefing series in 2018, we are continuing this series on issues and topics with a material interest to members.

Two successful sessions have already run in the past few months with Energy Ministers in SA and Tasmania, and we are planning further briefings after the election.

If you have ideas on a topic that you think would be of interest to other members, please get in touch.

We also welcome any members who would be interested in hosting a breakfast briefing in a boardroom or similar space.

Contact us via euaa@euaa.com.au

MEMBER COMMITTEES

There is a great deal going on at the moment with a range of reviews, price resets and rule changes being proposed. These things can have a fundamental impact on your energy bills which is why we keep a very close eye on them and participate in as many submissions as possible.

You can get more out of your membership with the EUAA by joining a committee.

Our committees are key vehicles in which to put your views forward and be part of submissions into the many and varied energy inquiries taking place.

To learn more and get involved, contact us via email: euaa@euaa.com.au.

EUAA IN THE MEDIA

We have had a good run lately appearing in The Australian and the AFR on the risks around the lack of energy and climate change policy.

As already discussed, our gas policy paper also received some good media featuring heavily in the AFR, on Sky News and various industry and online publications. However, despite this there is little ongoing appetite to put increased focus on gas, RERT or other issues right now given the Federal Election.

We welcome member involvement in media commentary. If your company is interested in providing case studies on energy efficiency, actions that have been effective to reduce prices, anything else related to energy, or if you are happy to consider media requests, please contact:

Emily.wood@euaa.com.au or 0421 042 121

Member Update April 2019 – Electricity and Gas Committees

The Electricity and Gas Committees provide an opportunity for members to:

- Be informed about current issues and how they might impact on their company
- Raise issues they think the EUAA should pursue eg be part of a committee, prepare a submission or attend and address a public forum
- Review the draft of submissions that the EUAA is making

This update provides a summary of the major submissions and advocacy undertaken by the EUAA over the last 4 months and looks forward to some of the issues we will be addressing over the next 3-6 months. As always, we encourage your feedback on both.

Submissions are on our website [here](#).

Electricity Committee

Submissions and advocacy over the last two months

(i) AEMC – Draft Decision on RERT

The EUAA has been extensively involved in the AEMC review of RERT since many of our members received unexpectedly large invoices to cover the RERT costs in 2017/18. The AEMC published its [draft determination](#) on 6th February – a week after RERT was activated in Victoria.

It substantially reflected arguments put by the EUAA (and other market participants) over the last year and rejected AEMO's submission to increase the scope of RERT and effectively increase the current level of NEM reliability above the existing reliability standard (0.002% unserved energy per year) given the transition to renewables. AEMC recognised that market cannot have/afford 100% reliability – the costs would be huge and consumers are not prepared to pay for it.

The AEMC provided a briefing to EUAA members on 14th March. We made a subsequent submission on 21st March supporting the AEMC draft determination and raising some matters of detail for the AEMC to consider in their final determination which will be published on 2nd May. The new rules will apply from the 2019/20 summer.

Members can expect invoices for 2018/19 RERT (total cost of \$34.2m - \$32.3m in Victoria and \$1.9m in SA) over the next couple of months. They should ask their retailer to provide transparency around the costs that AEMO charged their retailer to ensure there was a true pass through of RERT costs.

(ii) ESB Retailer Reliability Obligation (RRO)

COAG Energy Ministers agreed at their December meeting to proceed with the RRO part of the National Energy Guarantee with commencement on 1 July 2019. Draft rules were published on 8th March. A key objective of the RRO is to look to an efficient market solution to meeting the reliability standard without the need to call on RERT.

The EUAA's submission was generally supportive of the proposed rules. Our key concern is the very compressed timetable required for the changes to be in place by 1st July 2019. There is also the uncertainty around the rules that will apply in South Australia given its earlier start date in that State.

(iii) Forecasting opex productivity growth for electricity DNSPs

The AER's [final decision](#) on 8th March was a 0.5% opex productivity factor. This was a very disappointing outcome for consumers. The AER's Draft proposed 1.0%, the EUAA submission supported the AER Consumer Challenge Panel's range of at least 1.5-2.0%.

This factor will now apply to all future decisions – initially to Ausgrid/Essential/Endeavour/TasNetworks and NT PWC in the decisions due next month to apply from 1st July 2019 and then to the SAPN, Ergon and Energex decisions to apply from 1st July 2020.

(iv) NSW DNSP's Revenue Reset for 2019-24 to be published by 30th April

This submission was on the networks' – Ausgrid, Endeavour and Essential - Final Proposals submitted to the AER in December/January, for the 5 year period starting 1st July 2019. Our focus was on Ausgrid. We submitted that we believed both Ausgrid and Essential were "capable of acceptance" by the AER, but Endeavour was not, given its stance on operating costs.

In the past, the EUAA, along with other consumer advocates, has been very critical of Ausgrid 's poor approach to consumer engagement. However last October, Ausgrid made a fundamental change in its approach. This led to the EUAA, along with the AER Consumer Challenge Panel, the ECA and PIAC which are all members of the Ausgrid Customer Consultative Committee, being heavily involved over November and December in negotiations on the final Ausgrid 2019-24 submission to the AER. The end result was a significant benefit for all consumers in reduced capex and opex for Ausgrid reflected in lower prices. The table shows network wide averages (which we expect to be larger in the final decision given the lower WACC):

Bill change FY20 vs FY19	Total Bill change on 1 st July 2019	
Medium business (160-750MWh/yr)	-\$2,724	-9.7%
Large business (>750MWh/yr)	-\$2,831	-2.3%

The EUAA came out of this intense period with a greatly increased respect and trust for Ausgrid.

We were very supportive of Essential's submission. Price falls are small because of historical capex, but Essential has an excellent consumer engagement process (it won the 2018 ENA prize) and is genuinely trying to reduce process to consumers.

We were critical of Endeavour, particularly around its unwillingness to show a productivity improvement in its opex given the current AER review on this matter. This is discussed further below. We await the AER's final decision, which will apply the findings of its opex productivity review, to know what the price falls from 1 July 2019 will be for medium/large customers.

All three networks will continue to face price increase pressures in the following 2024-29 reset period unless they continue to substantially reduce capex and opex. A key focus for the EUAA in the next year will be the AER review of information and communications technology (ICT) capex and opex. The AER has relatively little rigour in its review of this category and networks are proposing significant expenditures, now bolstered by cyber security and network reliability issues.

Ausgrid has come on board as an EUAA Corporate Partner for the next three years. Part of this closer relationship will be EUAA participation in a range of Ausgrid customer engagement committees involved in evaluating expenditure in IT, innovation and cyber security.

(v) AusNet Distribution and “New Reg”

AusNet Distribution (covering Melbourne’s east and extending out to the NSW border) is the first network to trial the AER/ENA/ECA “New Reg” process where a Consumer Forum is appointed to undertake consumer engagement and to negotiate with AusNet on some expenditure areas in their proposal.

In February the Consumer Forum issued its initial report on its activities and AusNet issued its Draft Plan covering its proposed expenditure plans for 2021-26. We are now finalising a submission on both documents to be made in late April. AusNet recently agreed to come on board as an EUAA Corporate Partner and this will increase our involvement in AusNet’s regulatory 2021-26 reset.

(vi) Market making obligation in South Australian electricity market – AEMC review

The ACCC raised concerns about contract market liquidity in its [Retail Electricity Pricing Inquiry Final Report](#) (REPI) especially in South Australia, and recommended (Recommendation 6) the introduction of compulsory market making obligations in SA with a review on their efficacy after a period of two years. The ACCC considers this problem will become even more critical with the introduction of the Retailer Reliability Obligation where access to appropriate contracts will become even more important for retailers, especially smaller and standalone retailers, during periods when the RRO has been triggered.

In September 2018 the ESB issued a [consultation paper](#) on implementation of the ACCC recommendation. The EUAA made a submission supporting this proposal. Around the same time, ENGIE, a major generator in South Australia, proposed a rule change to the AEMC that would make the provision of market making to be voluntary.

The EUAA submission to the AEMC supported the ACCC’s view that the market should be compulsory. The ACCC had strong reservations about the ability of voluntary schemes on their own to be effective in addressing the concerns they expressed in REPI. The AER submission also supported a compulsory market. Most other submissions – from generators – supported the voluntary market.

The AEMC’s Draft Determination will be published on 27th June.

Submissions and advocacy over the next 3-6 months

(i) Demand response rule changes

The AEMC is currently considering three rule change requests on demand response – PIAC, Australian Energy Council and the SA Government. Issues are being considered through a similar Technical Working Group process that the AEMC used for RERT. Bridgette Carter is a member of the TWG. A draft determination is expected in July.

(ii) Co-ordination of Generation and Transmission (CoGaTI)

This is major work programme of the AEMC. Its [final report](#) on the initial CoGaTI review was published in December. It recommended a comprehensive reform package to better coordinate investment in renewable generation and transmission infrastructure, facilitating transmission and generation in the right place at the right time at an efficient cost. It is seeking to develop an “actionable strategic plan” for AEMO’s Integrated System Plan.

Recommendations covered:

- access eg managing congestion so the cheapest power can get to consumers, facilitating renewable energy zones through generators funding of transmission infrastructure, allow generators to pay for transmission infrastructure in exchange for access to it

- charging eg how to better align the costs of transmission, especially interconnectors, with those that benefit from the investment
- connection eg making it easier for large-scale storage systems to connect to the network by creating a new registration category to support seamless integration
- planning eg better integration of transmission investment decisions to the ISP, streamline RiT-T process

The AEMC is now progressing the part around access and charging. Given the significant amount of generation capacity currently seeking to connect to the grid, this is creating a lot of pressure to augment the grid. The AEMC's review is looking to change the current system where consumers pay the total cost of transmission to one where generators pay for transmission augmentation in exchange for firm access rights. This is an issue the EUAA raised in its CoGaTI submission late last year.

Submissions on the [Consultation Paper](#) are due on 26th April. There will then be a series of Technical Working Group meetings.

(iii) ESB Post 2025 NEM Market Design

Following a directive from COAG Energy Council at its December 2018 meeting, on 22nd March the ESB announced the start of a [major review](#) of whether the current NEM market design is "fit-for-purpose" for the mid 2020s. By the end of 2020 the ESN needs to recommend any changes to existing energy only design or recommend an alternative market design eg capacity market to achieve the NEO. The timetable recognises the long time period required for transition to any new structure given forward markets.

This will be a major area of work over the next 18 months. We will seek to be represented on two external governance committees – the Advisory Panel and the Technical working Group.

(vii) ESB/AER Detailed Implementation of the RRO

To fully implement the RRO there are six guidelines to be developed by the AER covering issues like how AEMO forecasts demand and supply, how large users can opt-in to meet their own RRO obligation. The first to be consulted on is the Guideline setting out the criteria the AER will use when making a decision on a reliability instrument request made by AEMO – including the consultation process with stakeholders. The Guideline also sets out how the AER will consult with stakeholders. Development of the guidelines will continue until late 2020.

(viii) AER review of VCR

EUAA is represented on the AER Consultative Committee and Andrew made a presentation at its meeting on 7th February on market segmentation. AER now preparing for its pilot questionnaire. We made two submissions over November/December focussing on seeking to limit any increase in current VCR values that are core to networks' justification of new capex. In particular arguing against AEMO's proposal to seek values for so-called High Impact Low Probability (HILP) events. We think that any estimates of this value would be of no use in policy discussions and could result in a lot of expenditure that consumers do not value.

(ix) AEMO 2019 Statement of Opportunities (SOO)

AEMO is starting preparing its annual electricity SOO which provides forecasts of demand and supply over the next 10 years. We are involved in the engagement with stakeholders around the assumptions and methodology to be used. This is a major input to AEMO's next iteration if the Integrated System Plan and the calculation of any shortfall under the RRO.

Gas Committee

Submissions and policy papers over the last three months

(i) Gas strategy

Work has concentrated on development of the Gas Strategy paper. Consultations have been held with many members and external stakeholders to discuss our draft recommendations. The final draft was circulated to members in early April. We will be having a member's teleconference in the near future to discuss and get your feedback.

(ii) ACCC gas reserves estimation methodology

The ACCC continues its Gas Inquiry work programme to improve market transparency – its most recent December 2018 report is [here](#). Following a decision at the December COAG Energy Council meeting, the ACCC is developing a framework for the consistent reporting of reserves and resources information – there is none currently. Producers (including explorers) would be required to annually report information on their reserves and resources to AEMO for publication on the Gas Bulletin Board using this framework.

The EUAA's submission on the ACCC [Consultation Paper](#) focussed on a key aspect of this proposed framework - the gas price assumptions to be used in the estimation and associated disclosure requirements for uncontracted reserves. We:

- Supported the ACCC's preferred approach of producers determining the forecast prices they will assume when estimating uncontracted reserves and that they are required to disclose those prices and the method used to determine the prices; that these prices should meet a "reasonableness" test and the
- The reserves should be reported by basis each year for the next five years and then generally for subsequent periods
- A gas price range should be provided within which there would be no material change in the 2P reserves estimates
- Sensitivity of the 2P reserves to a +/- 10% change in gas price
- Why the gas prices changed from the previous annual report

COAG Energy Council's Senior Committee of Officials (SCO) is expected to provide its final recommendations to the COAG Energy Council in mid-2019. If the Energy Council agrees to implement the reporting obligations and reporting framework, then, in a similar manner to other Bulletin Board reporting obligations, the Australian Energy Regulator (AER) will become responsible for monitoring producers' compliance with the obligations and the reporting framework.

(iii) Jemena Gas – Northern Gas Pipeline Tennant Creek – Mt Isa

A rule change application was made to the AEMC to remove the exemption of the pipeline so it would operate under Part 23 of the National Gas Rules. The proponents argued this would mean tariffs would reduce significantly. We believed that the real driver for the applicants was their opposition to fracking and the development of gas in the NT. Their analysis supporting their case was poor quality.

Following discussions with Jemena (a supporting member) we made a submission in December strongly supporting the building of the pipeline, acknowledging that it came out of a competitive tender process and recognising that Jemena took a risk in building it. While we support the Vertigan (part 23) reforms, these are more directed at existing pipelines that were not built after a competitive tender.

The AEMC concluded in its [Draft Determination](#) that the requested change would not offer net benefits to consumers and rejected the application. We have put in a short supporting submission to this finding.

Other

(i) AEMO SOO

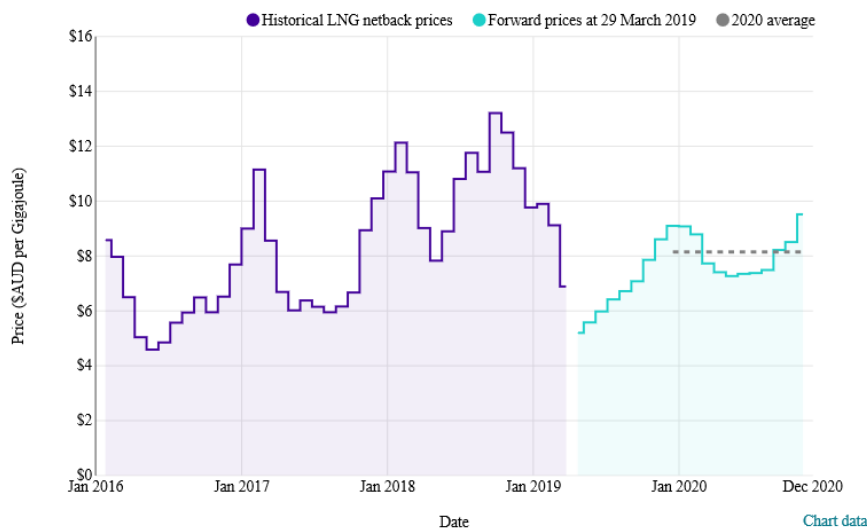
The [AEMO Gas Statement of Opportunities](#) was published in late March. Key conclusions were:

- Supply/demand balance remains tight with gas production in southern Australia continuing to decline, and supplies from Queensland limited by pipeline capacity
- Adequate supply to 2023, but there may be peak-day shortages in Victoria driven by weather or electricity market activity
- Reserve estimates in Victoria continue to decline and production expected to decline over the 20 year outlook. This will reduce Victoria’s ability to export surplus gas supplies to South Australia and New South Wales, placing more reliance on Queensland supplies to meet gas demand in these states. It will also increase reliance on the Iona underground gas storage facility to meet winter demand in Victoria.
- From 2024, major southbound pipeline infrastructure upgrades would be required to deliver more gas from northern to southern states (predominantly over the winter months when southern demand is highest); there is a potential for supply gaps from 2024 onwards, unless additional southern reserves and resources, or alternative infrastructure, are developed
- LNG import terminals would relieve pressure on meeting southern gas demand during peak periods and assist in reducing pipeline constraints but may do little to ease gas pricing pressures.

The EUAA issued a [Press Release](#) on the report.

(ii) LNG netback

The ACCC publishes [regular updates](#) of their LNG netback calculation. Here is the latest:



Last updated on 1 April 2019. Next update on 16 April 2019.

Mark Grenning
9th April 2019