

Strategic Plan 2020–2025

Our commitment to make energy
consumers better off, now and in the future



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A message from the Chair

I often tell people that if we can remember only one thing when we walk into a meeting—make it our purpose.

In every meeting, discussion, and analysis or decision, if we are guided by our purpose to make energy consumers better off, now and in the future, then we will certainly be on the right track.

Of course it takes much more than this to be a high-performing regulator that is independent, open and accountable; builds trust in Australia's energy system; takes considered risks; ensures our regime is fit for purpose; and engages actively with stakeholders.

But that is our vision for the organisation and we will continue to strive to achieve it every day.

It is now one year since I joined the Australian Energy Regulator. In that time, our Board has expanded from 3 to 5 members and we have appointed a new Chief Executive Officer.

These changes present an opportune moment to reconsider the AER's purpose, vision, outcomes and objectives over the next 5 years. Tellingly, both our purpose and vision remain broadly the same, standing the test of time.

While developing this new Strategic Plan, I travelled to each office and met with staff members. In small groups, we discussed the rapid changes in the energy system and what this means for the AER.

These discussions concluded only weeks before the onset of COVID-19. Much of our workforce has been in lockdown and working from home for most of this year. Yet, our COVID-19 response demonstrated the culture we are seeking to foster via this new Strategic Plan:

- › We were consumer-centric and committed in developing a Statement of Expectations to protect consumers through the uncertainties of the pandemic.
- › We were proactive and innovative, moving quickly to put these Expectations in place and extending our reach, as required, beyond the everyday rules framework.
- › We were collaborative and respectful as we worked with industry and consumer groups to understand and consider the needs of each.
- › We were accountable and honest as these expectations evolved, as we better understood the nature and shape of this interruption to Australians' lives.

Of course, none of this would have been possible without expert and capable staff.

This is only one example of how we try to live our values at the AER. On our best days, we are all of these things: consumer-centric and committed; collaborative and respectful; accountable and honest; proactive and innovative; and expert and capable. But we are not yet all of these

things all of the time. So, we all have an opportunity to grow with this Strategic Plan and deliver its outcomes and objectives.

The outcomes we aim to achieve with this Strategic Plan are grounded in the former Council of Australian Government (COAG) *Strategic Energy Plan* (Strategic Energy Plan) outcomes. To support these outcomes, we have articulated 4 key objectives.

We will:

- › protect vulnerable consumers while enabling consumers to participate in energy markets
- › effectively regulate competitive markets primarily through monitoring and reporting, and enforcement and compliance
- › deliver efficient regulation of monopoly infrastructure while incentivising networks to become platforms for energy services
- › use our expertise to inform debate about Australia's energy future and support the energy transition.

This Strategic Plan sets out a large number of priorities we will need to deliver over the next 5 years to give effect to these core objectives. Each year, the AER releases a joint Corporate Plan with the ACCC. This Strategic Plan will underpin those Corporate Plans until 2025, with each Corporate Plan focusing on what we will achieve in that financial year.

Our relationship with our stakeholders and the support of our systems will also be critical to delivering this Strategic Plan.

We commit to embracing proactive and creative ways of engaging our stakeholders and ensuring we clearly communicate our decisions. We will work in partnership with other energy market bodies and government on areas of common interest.

I hope one thing will characterise our approach during the fundamental transformation of the energy system. We **start with yes** in response to good ideas, new ways of working, opportunities to be more efficient, and collaboration.

Over the next 5 years, I look forward to sharing and celebrating our contribution to delivering on the objectives of: affordable energy and satisfied consumers; a secure electricity and gas system; a reliable and low emissions electricity and gas supply; effective development of open and competitive markets; and efficient and timely investment in networks.

Clare



Our plan summarised

Purpose

The AER exists so that energy consumers are better off, now and in the future

Vision

The AER is a high-performing regulator that:

- › is independent, open and accountable
- › builds trust in Australia's energy system
- › takes considered risks
- › ensures the regime is fit for purpose
- › engages actively with stakeholders.

Outcomes

In accordance with the Strategic Energy Plan, the AER aims to achieve:

- › Affordable energy and satisfied consumers
- › Secure electricity and gas system
- › Reliable and low emissions electricity and gas supply
- › Effective development of open and competitive markets
- › Efficient and timely investment in networks.

Objectives

To achieve these outcomes, we will:

- › Protect vulnerable consumers, while enabling consumers to participate in energy markets
- › Deliver efficient regulation of monopoly infrastructure while incentivising networks to become platforms for energy services
- › Effectively regulate competitive markets primarily through monitoring and reporting, and enforcement and compliance
- › Use our expertise to inform debate about Australia's energy future and support the energy transition.



How we work

The AER's most valuable asset is our staff, with over 250 people located in offices across Australia: Adelaide, Brisbane, Canberra, Darwin, Melbourne and Sydney. To achieve the goals in this Plan, we need to enable staff so that they can form an innovative and high achieving organisation. How we want to work is just as important as what we want to do.

We want to be an organisation that **starts with yes** in response to good ideas, new ways of working, opportunities to be more efficient, and collaboration.

Consultation with staff and the Board shows we want **our people** to be:

- › Consumer-centric and committed
- › Collaborative and respectful
- › Accountable and honest
- › Proactive and innovative
- › Expert and capable.

To our many and varied **stakeholders**, we are committed to:

- › Proactively engaging and listening to understand their diverse perspectives
- › Clearly communicating our decisions and making it easy to engage with us
- › Embracing creative ways of engaging that work for stakeholders, not just us
- › Working in partnership with other energy market bodies and the government on matters of common interest.

The AER has grown rapidly in the past few years and is on a continuous journey to improve the foundations that support our work. We want to design **our systems** so that we:

- › Work in ways that are efficient and systematised with well-trained staff
- › Ensure resources are allocated efficiently, monitored, and reprioritised flexibly
- › Recognise the value of our data and mature our governance approach
- › Use key performance indicators and evaluation frameworks to measure and align processes across the organisation
- › Use technology to create state-of-the-art analytical and specialist capability
- › Proactively identify risks and monitor and manage them.



About the AER

The AER exists to ensure energy consumers are better off, now and in the future.

Consumers are at the heart of our work, and we focus on ensuring a secure, reliable and affordable energy future for Australia. We regulate wholesale and retail energy markets, and energy networks, under national energy legislation and rules. Our functions relate mostly to energy markets in eastern and southern Australia.

The AER has a key role in enabling consumers to make informed choices about their energy supplier. This role includes ensuring consumers are empowered to access the best energy offer for their circumstances, as well as helping consumers resolve any problems. We also encourage energy businesses to prioritise consumer welfare. Our role includes: setting the Default Market Offer to protect consumers from high prices and encourage participation in the market; approving policies energy retailers must implement to assist consumers facing financial hardship and looking for help to manage their energy bills; administering a retailer of last resort scheme, which protects consumers and the market if an energy retailer fails; and soon to be conferred functions on implementing regulatory sandboxes to encourage innovation in energy technologies and new business models that benefit consumers.

We regulate electricity networks and natural gas pipelines by setting the maximum amount of revenue they can earn. Network businesses submit required revenue proposals. We review these proposals and make decisions after considering factors including: quality of engagement with customers; projected demand for electricity and natural gas; age of infrastructure; operating and financial costs; and network reliability and safety standards.

Decisions generally apply for 5 years, and network businesses adjust their prices annually (which we approve each year during the 5-year period).

In wholesale electricity and gas markets, we monitor, investigate and enforce compliance with national energy legislation and rules. We monitor participant bidding and rebidding, market dispatch and prices, network constraints and outages, demand forecasts and forecasts of production and capacity.

We also report on market activity, including: weekly reports on wholesale market outcomes; reports on prices outside normal thresholds; quarterly reports on the performance of the wholesale electricity and gas markets; and a biennial assessment of the effectiveness of wholesale electricity market competition.

The AER also regulates retail electricity and gas markets in jurisdictions that have commenced the National Energy Retail Law. The Retail Law commenced in Tasmania (for electricity consumers only) and the Australian Capital Territory on 1 July 2012, South Australia on 1 February 2013, New South Wales on 1 July 2013 and Queensland on 1 July 2015. We also provide a price comparison website—Energy Made Easy—to help consumers find the best energy offers for their needs.

As part of our retail regulation role, we monitor and enforce compliance with obligations in the Retail Law, Rules and Regulations. We report on performance of the market and energy businesses, including energy affordability and disconnection of consumers for non-payment of energy bills. We also assess authorisation applications from businesses that want to become energy retailers, and provide exemptions, subject to conditions, for other businesses (for example, nursing homes and caravan parks that on-sell energy to tenants).

The AER draws on its expertise in energy markets and its analysis to inform and influence debate about energy policy. By leveraging our expertise, we advocate for policy changes and improvements to energy laws and rules that protect and promote the interests of energy consumers. Effective policy advocacy on behalf of consumers is particularly important given the nature and size of the energy transition that is underway. We engage in policy development via our Chair's membership of the Energy Security Board, and through submissions on policy reviews and rule changes to the Australian Energy Market Commission.

Our advocacy activities will continue to be informed and empowered via a number of sources, including consumer representative bodies. We currently resource several consumer forums to give us advice. These bodies include the Consumer Challenge Panel (CCP), the Consumer Reference Group (CRG), and the Consumer Consultative Group (CCG) which allows participating organisations to inform the AER about issues that affect the groups they represent.

The AER exists
to ensure energy
consumers are better
off, now and in the
future





AER Board (left to right) Jim Cox (Deputy Chair), Eric Groom PSM, Clare Savage (Chair), Justin Oliver and Catriona Lowe.

Our governance

The AER Board is an independent statutory entity, comprising five members: Clare Savage (Chair), Jim Cox (Deputy Chair), Eric Groom, Catriona Lowe and Justin Oliver. They are appointed under Part IIIA of the *Competition and Consumer Act 2010*, following a process outlined in the Australian Energy Market Agreement.

The Board has 4 core functions:

- › Provide early guidance and direction for staff/committee work on issues of strategic importance.
- › Make decisions under statutory powers including to initiate proceedings or issue infringement notices.
- › Set high-level strategy, risk appetite and approach to stakeholder engagement.
- › Oversee AER performance.

The CEO and Senior Leadership Team are responsible for day-to-day management. The CEO reports to the Chair.

OUR SENIOR LEADERSHIP TEAM

AER CEO				
Executive General Manager Consumers, Policy and Markets	Executive General Manager Network Regulation	General Manager Compliance and Enforcement	General Manager Strategic Communications and Engagement	Principal Director Corporate Services

The Board has established four committees: Policy and Governance; Enforcement and Compliance; Markets; and Networks. The membership of these is as follows:

- › **Policy and Governance:** Jim Cox (Chair), Eric Groom, Catriona Lowe, Justin Oliver and Clare Savage.
- › **Enforcement and Compliance:** Catriona Lowe (Chair), Jim Cox and Justin Oliver.
- › **Markets:** Justin Oliver (Chair), Eric Groom and Clare Savage.
- › **Networks:** Eric Groom (Chair), Jim Cox and Catriona Lowe.

These committees provide the opportunity for brainstorming and discussion between Board members and staff. Board members also contribute to the governance and work of the ACCC as a whole. The AER Chair and Deputy Chair are formally members of the ACCC Corporate Governance Board. Jim Cox chairs the ACCC Audit Committee and also sits on the ACCC Infrastructure Committee and Electricity Inquiry Board. Eric Groom sits on the ACCC Communications Committee and Gas Inquiry Board.



Developing this plan

In early 2020, the AER Board set about developing this Strategic Plan. The Chair initiated the process, by meeting with staff to discuss the AER's operating environment, the future of the energy system, ideas for key priorities for the AER, and how the organisation currently operates. The Board and Senior Management Team (SMT) then considered these themes and feedback from staff. Resulting background reports provided context for considering our future direction.

Then, the COVID-19 pandemic dramatically changed not only how the AER works, but Australia's economic landscape. From March 2020, AER staff across Australia worked remotely from home, until various offices began reopening in the second half of the year. Reflecting this new reality, plan development continued via virtual workshops between the Board and the SMT. The plan was then fine-tuned during 9 sessions with various staff groups, the Chair and the CEO. A select group of senior government stakeholders was also consulted.

To ensure buy-in from staff of the enablers and cultural aspirations of the AER, all Branches conducted interactive workshops to discuss our ways of working, our engagement with stakeholders and the systems we need.

Each year, the AER releases a joint Corporate Plan with the ACCC. This Strategic Plan will underpin those Corporate Plans until 2025, with each Corporate Plan focusing on what we will achieve in that financial year.

This Strategic Plan is very ambitious, not only in what it seeks to achieve, but also in scale. Our work continues to be recognised through additional functions under the Rules, while stakeholder expectations of the AER continue to grow. We will need to continue to attract additional resources to turn all aspects of this plan into a reality. This plan provides a blueprint for our future, and we will work across government to deliver it.

This Strategic Plan is very ambitious, not only in what it seeks to achieve, but also in scale



The Execute/Tilt/Advocate Framework

The objectives in this plan are organised into priorities against an Execute/Tilt/Advocate Framework. 'Execute' signals to staff and stakeholders our 'must do's' under the regulatory framework. 'Tilt' describes actions to push the AER in a new direction or shift emphasis in response to a rapidly changing external environment, but stay within our existing remit. 'Advocate' describes pursuing changes to the regulatory frameworks that are beyond our immediate control, and that require collaboration across government and the market bodies.

EXECUTE

We undertake our core activities efficiently and to an exceptional standard.

TILT

We use the tools at our disposal to adapt our approach in response to emerging challenges and priorities.

ADVOCATE

We use our capabilities and experience to improve the regulatory framework.

The following sections apply this Execute/Tilt/Advocate Framework to our 4 objectives:

- › Protect vulnerable consumers, while enabling consumers to participate in energy markets.
- › Effectively regulate competitive markets primarily through monitoring and reporting, and enforcement and compliance.
- › Deliver efficient regulation of monopoly infrastructure while incentivising networks to become platforms for energy services.
- › Use our expertise to inform debate about Australia's energy future and support the energy transition.



Objectives

1. Protect vulnerable consumers, while enabling consumers to participate in energy markets

Energy is an essential service and consumer interests are diverse with varying levels of capacity to engage in the energy market. We need a sound understanding of these issues to play our part in delivering a secure, reliable and affordable energy future for Australia, and to ensure our activities to improve consumer outcomes remain relevant and meaningful. This cuts across a number of our core functions as a regulator: making revenue determinations, taking enforcement action, sharing insights to shape future policy, working with our stakeholders, and engaging with consumers.

We recognise vulnerability is multi-faceted. All consumers can move into and out of vulnerability at different points of life or as a result of various factors. In this context, research shows 44% of Australians have literacy levels below what is considered enough to get by in everyday life, 1 in 5 have a disability, and 2 in 3 experience some form of financial stress at some point in their life.

We want
barriers that
prevent efficient
and effective
participation in
the energy system
removed.

The COVID-19 pandemic has reinforced that vulnerability can affect large cohorts of consumers. The pandemic continues to significantly affect the Australian community and our stakeholders. Many people have experienced dramatic changes to their lives, businesses, income and working arrangements. Reflecting this, our work programs to update our Statement of Expectations, and develop our consumer vulnerability strategy will be important to protect vulnerable consumers during the pandemic and recovery more broadly.

Recognising the impact of the pandemic on vulnerable customers, our short-term compliance and enforcement priorities focus on protecting life support customers and ensuring those in financial difficulties are offered sustainable and affordable payment plans. When we see vulnerable customers not receiving the required protections, we will act decisively using all our compliance and enforcement tools.



We want barriers that prevent efficient and effective participation in the energy system removed. Consumers experiencing vulnerability, and people seeking to overcome market-based problems (such as unclear or confusing retail information, the inability to easily compare offers or barriers to switching) should be able to access new opportunities and participate. In the future, the market should adapt so that consumers can sell electricity they have generated, participate in spot markets, actively manage demand, and control their energy use remotely if they want to. We want all consumers to have an opportunity to realise the benefits of this energy transition, without compounding existing vulnerabilities.

Through our Energy Made Easy (EME) platform, we are empowering consumers to make informed choices about their energy supplier. We want to maintain EME as a free, trusted and independent website that can help consumers access the best energy offer for their circumstances.

In 2019–20, EME had over 1.6 million users and over 700,000 plan searches. Over the past 2 years, the number of users accessing the site increased by 40%, while the number of energy plan searches rose by 35%. The use and value of EME for consumers will continue to grow with further developments such as the Consumer Data Right.

Our role in setting the Default Market Offer (DMO) price cap provides a safety net for consumers on standing offers who cannot or do not want to engage in the market. Our initial DMO price determination for 2019–20 significantly reduced prices for standing offer customers, with average reductions ranging from \$118 to \$896 per year. The DMO prices for 2020–21 continue to protect customers from unjustifiably high standing offer prices, while allowing retailers to recover the efficient costs of providing services and not dis-incentivising market participation by consumers and retailers.

Execute priorities

To protect vulnerable consumers, while enabling consumers to participate in energy markets, the AER will deliver the following priorities to 2025:

EXECUTE

- › Set the **Default Market Offer** to protect consumers from high prices and encourage participation in the market.
- › Facilitate **entry** of appropriate entities and **reduce consumer disruption and loss of competition** when a retailer exits.
- › Maintain an **effective exemptions framework** to protect consumers not serviced by authorised retailers.
- › Deliver annual consumer-related **compliance and enforcement priorities**.
- › Ensure **Energy Made Easy** (and electricity/gas bill benchmarks) is the preferred tool for consumers and is promoted effectively.

Tilt priorities

To protect vulnerable consumers, while enabling consumers to participate in energy markets, the AER will deliver the following priorities to 2025:

TILT

- › Develop a **vulnerability strategy** to inform work across the AER and consideration of consumer issues.
- › Implement iterations of the **Statement of Expectations (SoE)**.
- › Improve consumer outcomes while reducing cost to serve by **boosting consumer and behavioural insights** and applying them across AER initiatives (e.g. guidelines, better bills, Retail Pricing Information Guidelines (RPIG), Hardship/Sustainable Payment Plans Framework (SPPF)).
- › Further develop **Energy Made Easy** to reflect consumer needs and work towards providing a switching service.
- › Develop a **consumer engagement plan** that includes improved consumer engagement tools and capabilities for greater consistency across the AER.
- › Implement **regulatory sandboxes** to encourage:
 - innovation in energy technologies
 - new business models that benefit consumers (outside the current regulatory framework).
- › Increase **education activities** such as retailer compliance workshops.
- › Enhance **sources and use of market intelligence** in compliance and enforcement activities.

Advocate priorities

To protect vulnerable consumers, while enabling consumers to participate in energy markets, the AER will advocate to:

ADVOCATE

- › **Simplify the retail market regulatory framework** to encourage effective competition and reduce cost to serve.
- › Support the market in addressing consumer preferences and needs by **identifying and helping to address inconsistencies between outcomes and consumer expectations**.
- › **Expand Consumer Data Right** applications as required through the energy supply chain to increase consumers choice.



2. Effectively regulate competitive markets primarily through monitoring and reporting, and enforcement and compliance

The rules underpinning Australia's energy markets rely on market participants having the commercial freedom to decide how to meet their customer's needs, undertake day-to-day operations and make investment decisions based on the risks and opportunities they face. This approach is premised on the principle that competitive market-based arrangements are adaptive and most likely to achieve the highest degree of market efficiency, compared with alternatives, and therefore best serve the long-term interests of consumers.

The regulatory and rule frameworks are intended to provide a high level of market transparency, with decision making decentralised to those best placed to manage the associated risk. Businesses not complying with the rules harms not only consumers but effective competition.

We are building a strong, active compliance and enforcement program, supported by well targeted intelligence systems to address conduct that undermines market operations and erodes consumer confidence in energy markets. We have also been advocating for a new civil penalty regime that allows for deterrence penalties.

We have retained our annual compliance and enforcement priorities for 2020–21. In particular, we are focusing on ensuring customers benefit from competitive metering.

We are also ensuring we and the Australian Energy Market Operator (AEMO) receive accurate and timely information because transparency underpins all competitive markets. We play a pivotal role by independently reporting on the outcomes across the supply chain. Our surveillance activities forensically examine transactions and behaviour to identify design anomalies and ensure all market participants meet their obligations. Our market surveillance expertise makes us well placed to assist policy makers with ongoing reforms in both the electricity and gas sectors. We also oversee the Retailer Reliability Obligation, designed to ensure adequate contracting occurs during times of lower reliability. This work also includes the oversight of obligations of certain generators to improve liquidity in the contract markets.

The energy sector is currently undergoing the most significant technological transition in its history

The energy sector is currently undergoing the most significant technological transition in its history. This transition is set against a backdrop of changing expectations of the sector's key government stakeholders and greater consumer involvement. Challenges facing policy makers include whether energy markets in their current form will remain fit for purpose into the future. Publicly reporting on the performance of the markets with expert, independent analysis and advice helps all stakeholders engage in the reform process.

Execute priorities

To effectively regulate competitive markets primarily through monitoring and reporting, and enforcement and compliance, the AER will deliver the following priorities to 2025:

EXECUTE

- › Provide effective guidance and oversight of the **Retailer Reliability Obligation** (including monitoring the Market Liquidity Obligation).
- › Produce **insightful market reports**:
 - Weekly Wholesale Markets | COVID-19 data from retailers.
 - Quarterly Retail & Wholesale Market Performance.
 - Annual Retail Compliance | Annual State of the Energy Market.
 - Biennial Wholesale Electricity Market.
 - High Price Events (as they occur).
- › Manage the **dispute resolution role** efficiently and effectively.
- › Deliver **compliance and enforcement annual priorities**.
- › Undertake retail and generator performance **compliance audits** to improve compliance, systems and processes.
- › Manage **litigations on foot**.
- › **Better coordinate reporting** with other government bodies.

Tilt priorities

To effectively regulate competitive markets primarily through monitoring and reporting, and enforcement and compliance, the AER will deliver the following priorities to 2025:

TILT

- › Improve **market surveillance capability** to interrogate information more effectively by:
 - creating automated processes to flag potential issues with trades, bids and offers
 - developing staff analytical capability relating to financial markets, conduct, and competition analysis.
- › Expand understanding of the **interplay between physical and financial markets** to enable the AER to fulfil our reporting obligations (Retailer Reliability Obligation and biennial performance reports).
- › Implement **major reforms to improve transparency of the gas markets** when required by increasing our East Coast Gas Industry reporting functions.
- › Develop an **information management framework** for compliance intelligence.
- › Enhance the **retail performance reporting framework** to enable more detailed analysis which will:
 - increase our understanding of how the retail market is performing
 - understand how a transitioning retail energy sector is affecting consumers
 - better position the AER to undertake our retail performance reporting role
 - contribute to policy developments affecting consumers, including the Default Market Offer
 - use data to improve performance of individual regulated businesses.
- › Develop and implement a **new risk-based model** for prioritising compliance and enforcement work and for assessing non-compliance.
- › Develop **regular compliance reporting across market participants**.

Advocate priorities

To effectively regulate competitive markets primarily through monitoring and reporting, and enforcement and compliance, the AER will advocate to:

ADVOCATE

- › Review the **purpose and focus of reporting** to ensure our reporting contributes effectively (e.g. high price events reports).
- › **Increase the scope of AER powers** so we can monitor, understand and report on contract markets.



3. Deliver efficient regulation of monopoly infrastructure while incentivising networks to become platforms for energy services

Australia's energy system is rapidly changing and affecting how energy networks are used. Technological developments and consumer preferences are leading us away from a supply-side orientated system to one that needs to support two-way flows of electricity, and away from centralised generation to distributed generation. If not managed carefully, these changes may add significantly to network costs and therefore consumer bills.

As economic regulator of energy networks in all states and territories except Western Australia, we play an important role in the energy transition. We regulate 30 gas and electricity network businesses with a combined asset base of over \$100 billion. Our primary role is in setting the maximum revenue that network businesses can recover from users of their networks. We aim to ensure consumers pay no more than necessary for safe and reliable energy.

In addition, we also develop key aspects of the regulatory framework (including schemes, guidelines and models) and review them regularly to keep them relevant. For areas of the regulatory framework beyond our remit, we use our knowledge and experience to advocate for changes to the broader framework.

Importantly, our network objective determines how we, as an economic regulator, support the energy transition. We must ensure revenue determinations reflect consumer preferences while at the same time preparing the regulatory framework for new types of expenditures to manage the impact of the energy transition on networks. For example, it is expected that over the next 5-10 years there will be a requirement for investment of around \$10 billion in the transmission network to support the increased amount of renewable generation expected in the electricity system. At the same time, we must ensure we have assessment tools to review these expenditures in a way that allows timely, prudent and efficient investment.

We aim to ensure
consumers pay no
more than necessary
for safe and reliable
electricity

The Strategic Plan priorities embed the networks objective by improving the regulatory framework and ensuring the services networks offer are those consumers seek. For example, one priority aims to incentivise proposals that reflect customer preferences. Genuine, high quality consumer engagement helps network businesses better understand consumers' preferences and tailor their proposals to align with consumers' long-term interests. While significant activity has occurred in this area, we're planning to further develop our consumer engagement framework, particularly how we assess the quality of the engagement and apply these findings in our decisions.

Another priority relates to improving our regulatory framework by reviewing and refining our incentive schemes. Incentive schemes encourage networks to operate efficiently, and share any efficiency dividends between businesses and consumers over time. These schemes have been in place for some time, so it is prudent to review them to ensure they still meet their objectives and produce outcomes that are in the long-term interests of consumers.

Execute priorities

To deliver efficient regulation of monopoly infrastructure while incentivising networks to become platforms for energy services, the AER will deliver the following priorities to 2025:

EXECUTE

- › Undertake regular **revenue and price control processes** that promote the National Energy Objectives (NEO)/National Gas Objectives (NGO):
 - 30 revenue resets worth around \$70 billion over 5 years
 - annual pricing proposals
 - incentive schemes
 - pass throughs.
- › **Review the fundamental building blocks** such as inflation, rate of return, and value of customer reliability that promote the NEO/NGO.
- › Undertake **large Integrated System Plan project assessments** to support efficient and timely investment: Project Energy Connect; Humelink; VNI Minor; Eyre Peninsula Reinforcement; Marinus; VNI West; Central West and New England REZs in NSW.
- › Deliver **network performance reporting and actively monitor regulatory asset base growth** in the context of energy market developments, and to better inform stakeholders of outcomes and inform future regulatory reform.
- › Deliver network **compliance and enforcement**.

Tilt priorities

To deliver efficient regulation of monopoly infrastructure while incentivising networks to become platforms for energy services, the AER will deliver the following priorities to 2025:

TILT

- › **Incentivise proposals that reflect consumer preferences** and are **capable of acceptance**, including through:
 - establishing a Statement of Expectations for networks that aligns with the National Energy Objectives/National Gas Objectives
 - enhanced consumer engagement (e.g. NewReg).
- › **Be more efficient in our regulation** by focusing on high-impact actions that matter most to consumers, including through:
 - building better assessment tools and supporting data
 - reviewing and refining incentive schemes and guidelines to ensure they remain relevant and fit for purpose
 - improving our approach to reviewing large transmission investments (\$10 billion investment over 5–10 years).
- › Make sure the **regulatory regime and our network performance reporting evolves to support the energy transition**:
 - distributed energy resources (DER)
 - stand alone power systems (SAPS)
 - depreciation profiles, focusing on intergeneration equity and stranding risks
 - ring fencing and waivers
 - bushfires, COVID-19 and other natural disasters.
- › Undertake the **transparency review** for the Integrated System Plan.

Advocate priorities

To deliver efficient regulation of monopoly infrastructure while incentivising networks to become platforms for energy services, the AER will advocate for:

ADVOCATE

- › **Network charging reform** to deliver greater cost reflectivity in consumption and export tariffs for more efficient network investment and optimal distributed energy resources deployment.
- › **Greater flexibility in network regulation frameworks** to enhance consumer engagement and scope for innovation by network businesses, and longer reset periods where appropriate.



4. Use our expertise to inform debate about Australia's energy future and support the energy transition

The National Energy Market (NEM) is transitioning towards a future with significant and rapid uptake of both grid-based and distributed renewable energy resources, the closure of ageing thermal generation plant, and technological change that will affect how consumers engage with their energy providers. During this transition, the need to protect the long-term interests of consumers has never been greater. The AER, as the independent market monitor and enforcement agency, with appropriately funded functions and powers, can provide strong evidence-based analysis to inform policy proposals and help ensure those proposals are effective, holistic and fit for purpose while protecting the long-term interests of consumers.

The AER brings extensive expertise on energy markets and regulation, which can inform and influence debate about Australia's energy future. We can advocate for policy changes that protect and promote the interests of consumers via several avenues. These include our relationships with all levels of government and the AER Chair's membership of the Energy Security Board (ESB). We also make submissions to Australian Energy Market Commission (AEMC) policy reviews and rule change processes.

An immediate priority is actively participating in the ESB's advice to government on a long-term, fit-for-purpose market design for the NEM that accounts for energy transition impacts. Known as the NEM 2025 project, the ESB will provide final recommendations to the national and state governments on fit-for-purpose designs by mid-2021.

A key focus for the AER will be to evaluate the impact of different design solutions on consumers, competition and our role (specifically network regulation along with monitoring and enforcing compliance with the law and rules). For example, we may identify specific risks to consumers arising from reforms and recommend consumer protection solutions. Similarly, we may identify market power risks from design solutions and propose options to address these risks.

The nature and size of the energy transition requires significant changes to the market design and regulatory frameworks governing the sector

We will lead strategic policy development when the energy transition directly affects our role. One example is the area of transmission regulation. Over the coming period, we must evaluate the costs of large high cost transmission projects that have been identified as ‘actionable’ under AEMO’s Integrated System Plan. These projects face significant uncertainties and bring risks of businesses overestimating costs and consumers bearing cost overruns. We will lead work on tools and solutions to mitigate these risks, and advocate for changes to transmission frameworks to streamline assessment processes and drive greater competition in procurement.

Another example is standards for distributed energy resources (DER). With over 2 million households with solar PV, DER significantly affect the operation of the energy system, and new standards are required to manage system security risks. In addition, standardised data and communications systems should reduce barriers to competition and support the development of new and innovative energy services that interface with DER devices and effectively integrate DER into the energy system. DER standard setting can also impose significant costs on consumers through inefficient network investment, so we have an important advocacy role in ensuring standards are cost effective.

Execute priorities

To use our expertise to inform debate about Australia’s energy future and support the energy transition, the AER will deliver the following priorities to 2025:

EXECUTE

- › **Contribute to policy processes and reviews** that impact on competition, consumers, and the role of the AER including **Australian Energy Market Commission rule changes**.
- › Provide timely and insightful contributions to the **Energy Security Board** and the **Energy Ministers**.
- › Engage actively in **external forums** including the Utility Regulators Forum and the regulatory conference.

Tilt priorities

To use our expertise to inform debate about Australia’s energy future and support the energy transition, the AER will deliver the following priorities to 2025:

TILT

- › Contribute to **NEM 2025** via the Energy Security Board by evaluating the impacts of new market designs on competition, consumer protections, monitoring, compliance and enforcement.
- › Use **consumer insights to inform input to external processes** (e.g. rule changes).
- › Enhance our outward-looking focus by increasing **engagement with external professional forums**.

Advocate priorities

To use our expertise to inform debate about Australia's energy future and support the energy transition, the AER will:

ADVOCATE

- › Analyse the **competitive positions and margins of different classes of generators** through the energy transition and advocate, including through NEM 2025, for reforms or market designs that minimise the potential for the misuse of market power and ensure participant margins are consistent with a competitive market.
- › Review **transmission network regulation frameworks** and advocate for changes that:
 - provide the AER with effective tools to assess efficient expenditure on large transmission projects
 - streamline the RIT-T (regulatory investment test for transmission) process
 - drive greater competition in transmission investment planning where beneficial.
- › Advocate to ensure arrangements governing **distributed energy resources (DER) standards** are proportionate, align with the interests of consumers and do not lead to inefficient network investment.





Enablers—the way we need to work

The AER has high levels of staff engagement and relatively low levels of staff turnover. We have a culture that is supportive and collaborative with staff who are very dedicated to the important work they do to drive positive outcomes for consumers.

We are operating in an external environment that is undergoing rapid change and increasingly complex. The energy system is experiencing a significant transition with rapid innovation in new technology, as well as changes in community and consumer expectations and consumer engagement. Our functions and responsibilities have grown and are likely to continue to grow.

As the energy sector changes, it is important our organisational culture and capabilities adjust accordingly. Moving forward, we must build on our existing culture towards a culture, ways of working and a set of capabilities that enable us to deliver this Strategic Plan and respond effectively to changes in the energy system. In particular, we need to emphasise new cultural attributes including being proactive and innovative, and further strengthening our focus on outcomes for consumers.

Defining the AER's culture

This Strategic Plan focuses on what the AER does, and where we are planning to go. Delivering it requires an organisational culture that supports this new strategic direction.

Culture is the patterns of behaviours that are encouraged, discouraged or tolerated over time. Culture develops in any community of people who spend time together and who are bound together through shared goals. To help our thinking on our culture, and where we want to take it, we relied heavily on the commonly used framework provided by Carolyn Taylor's *Walking the Talk, Building a Culture for Success* (2015). This framework describes 6 different cultural archetypes. In reflecting on our culture, and where we would like to be, we recognised we already have strong elements of 'People first' and 'Greater good' culture. These should be maintained. We consider we can maintain and grow elements of a 'One team' and 'Customer centric' culture. Our real call to action is to focus and grow elements of the 'Achievement' and 'Innovation' culture. Appendix A outlines the various archetypes and describes their key characteristics.

We are developing a separate Culture Plan to help us achieve our strategic objectives. This Culture Plan will further develop and explain the following cultural enablers by outlining the behaviours, symbols, and systems that will create our desired culture. It will guide our behaviours and ways of working, as well as how we support and develop our people.

Our people

We want to remain an organisation with an engaged workforce that is dedicated to our work. We want to support our people and ensure we support each other. We value diversity of staff across all levels, and seek to obtain and include diversity of views in our decision making. We consider consumers in all aspects of our work, and encourage courageous sharing of views and ideas to promote innovation. We use our expertise and regularly find ways to improve our performance, and learn and grow.

We also want to **start with yes** in response to good ideas, new ways of working, opportunities to be more efficient, and collaboration.

After consultation with staff and the Board the AER determined we want our people to be:

Consumer-centric and committed

- › We put consumers at the heart of our decisions by always considering the impact on consumers of our work and decisions.
- › We seek to understand and apply (not dictate) consumer preferences.
- › We are deeply committed to enhancing consumers' interests consistent with the National Energy Objectives (NEO).

Collaborative and respectful

- › We respect and support each other.
- › We work collaboratively to provide an organisation and system-wide perspective that encompasses a broad range of views.
- › We respect other people's ideas and actively seek to capture and contribute a range of viewpoints in our work.
- › We constructively challenge ideas, not people.
- › We share knowledge, information, skills and experience.

Accountable and honest

- › We understand and shape our evolving role in the energy system.
- › We are outcomes-focused and strive to measure and review our performance, and improve our internal operations and capabilities.
- › We surface views and have honest conversations.
- › We support and value feedback and peer review.
- › We are transparent, and embody independence and impartiality in our work.

Expert and capable

- › We recognise our people are our greatest assets and we prioritise their wellbeing and development.
- › We maintain and build deep technical expertise in a broad range of capabilities and also recognise the critical role of leadership.
- › We are thought leaders in the sector.
- › We tailor our communication to the full range of audiences.
- › We are committed to diversity across the agency and actively seek diverse perspectives.

Proactive and innovative

- › We are adaptable to changing circumstances and take considered risks to deliver agreed outcomes.
- › We actively listen and **start with yes** when approached with good ideas, new ways of working, and opportunities to be more efficient and/or collaborative.
- › We recognise the energy system transition and signal what an effective market looks like.
- › We are courageous and empowered to speak up and contribute views and advice.
- › We are supported to reflect on outcomes and to learn from experience.

Our stakeholders

The AER's work is informed by regular dialogue with a range of stakeholders, including other market bodies, consumer groups, industry participants/industry bodies and governments. To achieve our Strategic Plan, close collaboration with others is required.

The AER Chair is a member of the Energy Security Board, and we work particularly closely with the other market bodies, the Australian Energy Market Commission and the Australian Energy Market Operator, as well as Energy Consumers Australia.

Consumer engagement is a key part of the AER's stakeholder engagement work. In addition to regularly receiving direct feedback via our Contact Centre, we have 3 key forums:

- › **Consumer Consultative Group:** The CCG has 14 members, each of which is an organisation representing a range of consumer interests. The CCG's role is to provide advice to the AER relating to our functions under the energy laws affecting energy consumers across participating jurisdictions.
- › **Consumer Challenge Panel:** The CCP helps the AER to incorporate a consumer perspective into network determinations. Members are individuals with significant local and international expertise, spanning fields including economic regulation, energy networks and consumer representation.
- › **Consumer Reference Group:** The CRG is a project-specific consultation body established by the AER to provide consumer input into our Inflation Review 2020 and Rate of Return Instrument 2022. Members are individuals with significant relevant experience who are appointed by the AER.

As an industry regulator, we rely on and appreciate the numerous interactions we have with the businesses we regulate. We appreciate their considered responses to our consultative processes. We take our consultation obligations very seriously, and aim to be transparent, give sound reasons for our decisions, and signal well in advance any changes to our approach.

To our many and varied stakeholders we are committed to:

- › Proactively engaging and listening to understand their diverse perspectives
- › Working in partnership with other energy market bodies and the government on matters of common interest
- › Clearly communicating our decisions and making it easy to engage with us
- › Embracing creative ways of engaging that work for stakeholders, not just us.

Our systems

The AER is currently part of the ACCC and shares a range of organisational support services, including finance, human resources, IT, property, and legal. We also operate numerous data and analytical systems that aide our market surveillance, monitoring and reporting work.

As we grow, we need our systems and processes to keep up with us. We want to design our systems so that we:

- › Work in ways that are efficient and systematised with well-trained staff
- › Use key performance indicators and evaluation frameworks to measure and align processes across the organisation
- › Ensure resources are allocated efficiently, monitored, and reprioritised flexibly
- › Use technology to create state-of-the-art analytical and specialist capability
- › Recognise the value of our data and mature our governance approach
- › Proactively identify risks and monitor and manage them.





Implementation and oversight

This Strategic Plan represents an ambitious work program over 5 years. In the first AER/ACCC Corporate Plan (2020–21) that reflected the Strategic Plan, we included all the priorities.

From now on, our annual Corporate Plan will outline the initiatives we will deliver that year. For initiatives that are being implemented in the near term, responsible Branches are preparing more detailed project plans to outline the rationale, objective, measures of success, milestones and timeframes, and roles/responsibilities within the AER.

We will use these project plans to track delivery, with routine internal reporting to the AER Board's Policy and Governance Committee and through our Annual Report which is a statutory requirement.

Measuring progress

This Strategic Plan updates the AER's objectives to support the outcomes outlined by the Strategic Energy Plan. To reflect this change, we must also redesign our performance framework to ensure close alignment between our key performance indicators (KPIs) and objectives.

We are still developing our KPI framework, and we will keep refining the indicators so that they reflect not only our outputs, but also the impacts and outcomes. Moving to a framework that considers impacts and outcomes will necessarily include measures that are not wholly within our control; rather we contribute to a multi-factorial impact/outcome that involves numerous bodies within the energy system.

As a starting point, we will report our progress against the following KPIs:

Objective 1: Protect vulnerable consumers, while enabling consumers to participate in energy markets

PERFORMANCE INDICATORS	MEASURE / TARGET
AER stakeholders' agreement with the following statements: <ul style="list-style-type: none"> › The AER equips consumers to participate effectively, and protects those who are unable to safeguard their own interests. › The AER supports and protects energy consumers, particularly those in vulnerable circumstances. › The AER demonstrates a sound knowledge and understanding of energy consumers. 	Proportion of survey respondents who strongly agree/agree with the statement (trend) disaggregated by stakeholder sector.
Consumer (household and small business) confidence in their ability to make choices about energy products and services.	Proportion of respondents in ECA Consumer Sentiment Survey rating a 7/10 or higher (trend).
People completing their search on Energy Made Easy (EME).	Number—EME tracking data (trend).
New and amended retailer hardship policies assessed within 12 weeks of AER receiving all relevant information.	100%
Retail authorisation and exemptions applications to sell energy assessed within 16 weeks of receiving all relevant information.	100%
Customers on market versus standing offers.	Proportion of customers (AER retailer data) (trend).

Objective 2: Effectively regulate competitive markets primarily through monitoring and reporting, and compliance and enforcement

PERFORMANCE INDICATORS	MEASURE / TARGET
Extent to which competition in retail and wholesale energy markets is identified as an issue.	Commentary in AER/AEMC reports.
Proportion of all market reports published within agreed/ statutory timeframes: <ul style="list-style-type: none"> › Weekly Wholesale Markets. › Quarterly Retail & Wholesale Market Performance › Annual Retail Compliance. › Annual State of the Energy Market. › Biennial Wholesale Electricity Market. › High Price Events. 	100%
Work delivered against AER consumer compliance and enforcement priorities (life support and hardship).	Proportion of work program—AER data.
Work delivered against AER effective regulation of market compliance and enforcement priorities (metering, provision of information and gas).	Proportion of work program—AER data.

Objective 3: Deliver efficient regulation of monopoly infrastructure while incentivising networks to become platforms for energy services

PERFORMANCE INDICATORS	MEASURE / TARGET
AER stakeholders' agreement with the following statements: <ul style="list-style-type: none"> › The AER encourages and enables innovation by network businesses. › The AER promotes efficient investment in, operation and use of energy services for the long-term interests of consumers. 	Proportion of survey respondents who strongly agree/agree with the statement (trend) disaggregated by stakeholder sector.
Revenue reset determinations for electricity networks and gas pipelines completed within statutory timeframes.	100%
Completed revenue decisions for electricity networks and gas pipelines.	Number per annum
Customers with a retailer exposed to cost reflective network tariff.	Proportion of customers—AER retailer data (trend).

Objective 4: Use our expertise to inform debate about Australia's energy future and support the energy transition

PERFORMANCE INDICATORS	MEASURE / TARGET
AER stakeholders' agreement with the following statements: <ul style="list-style-type: none"> › The AER is an authoritative and trusted source of information about Australian energy markets. › The AER engages effectively with its stakeholders. › The AER shows leadership in pursuing or promoting priority issues in the energy sector. 	Proportion of survey respondents who strongly agree/agree with the statement (trend) disaggregated by stakeholder sector.
Extent to which AER submissions to policy and rule making processes make an impact.	Annual qualitative self-assessment.
Reach of AER social media activities.	Audience growth rates and engagement metrics (trend).
Sentiment of AER media coverage.	Proportion of positive sentiment (trend).

Appendix: Cultural archetypes

The following statements illustrate the behaviours, symbols, systems and values that may be prominent in the particular cultural archetype. It draws on the commonly used framework provided by Carolyn Taylor's *Walking the Talk, Building a Culture for Success* (2015).

Our real call to action is to focus and grow elements of the 'Achievement' and 'Innovation' culture.

Behaviours

Current/Maintain			Focus/Grow		
PEOPLE FIRST	GREATER GOOD	ONE TEAM	CUSTOMER CENTRIC	ACHIEVEMENT	INNOVATIVE
Leaders coach, support and listen to their people.	Employees are passionate about the cause.	Decisions are made with the 'big picture' in mind.	The Board and SLT understand consumers' needs.	The AER's vision and strategy is agreed and communicated.	Experimenting is encouraged in the AER.
Junior people are treated with the same level of respect as their senior colleagues.	Employees act with a longer-term perspective.	Conflicting priorities are resolved openly and constructively.	Individuals go the extra mile to address consumer needs.	Trade-offs are surfaced and explicitly resolved when prioritising resources.	Ideas are challenged and people speak their mind.
Any form of disrespectful behaviour is stamped out quickly.	The impact on consumers is considered in day-to-day decisions.	When an organisational decision is made, individuals speak and act in support of it.	Consumers are talked about as decisions are reached in every meeting.	Individuals do what they say they will, and deliver on promises.	Mistakes are considered opportunities for learning.
Constructive challenge is encouraged.					Best practice is transferred across the organisation.

Symbols

Current/Maintain

Focus/Grow

PEOPLE FIRST	GREATER GOOD	ONE TEAM	CUSTOMER CENTRIC	ACHIEVEMENT	INNOVATIVE
Non - traditional and diverse people choices are made for key roles.	The AER's voice and power is used to influence at a societal level for the good of consumers.	Work done by one group is actively supported by the whole.	Investment in consumer initiatives are prioritised.	The AER seeks to measure its success over time.	Reflection on learnings is common.
People are given a go by being handed responsibility and the chance to prove themselves.	Investment is in the longer term.	People are moved across the organisation, with managers prepared to give up resources.	Staff are trained to understand and respond to consumer perspectives.	The AER uses clear metrics and milestones to measure individual performance.	Resources are directed to development and entrepreneurial ideas.
			Stories about addressing consumer needs are widespread.	Meetings start and end on time, with agreed actions that are followed up.	Experience is valued, but new blood is always introduced.
				Individual non-performance is dealt with appropriately.	

Systems

Current/Maintain

Focus/Grow

PEOPLE FIRST	GREATER GOOD	ONE TEAM	CUSTOMER CENTRIC	ACHIEVEMENT	INNOVATIVE
Giving feedback is considered important as part of learning and development.	Metrics consider the broader community impact of the AER.	The performance system encourages people to facilitate the success of others.	Structure allows for the maximum amount of responsiveness to consumer needs.	Individual contribution to strategy and targets is explicitly defined.	There is rigorous measurement to improve our work
Training is broad and well resourced.	Research into the future, providing insights, has equal weight to short-term performance.	People are held to account by different people for different deliverables.	We draw on extensive consumer insight and engagement to assess long-term consumer interest.	The budget process aligns with AER objectives.	There are well used knowledge management systems.
Work-life balance policies are well developed.		Peer review is an important part of performance evaluation.	Staff training in consumer issues is extensive.	There is alignment between those who are rewarded and promoted due to performance.	Innovation and idea-generation are captured in performance management.
Trusted mechanisms exist to address non-compliant behaviour (e.g. bullying, discrimination).					Delegated authority and empowerment are encouraged.

Values

Current/Maintain

Focus/Grow

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PEOPLE FIRST	GREATER GOOD	ONE TEAM	CUSTOMER CENTRIC	ACHIEVEMENT	INNOVATIVE
People are inherently trustworthy.	The AER has a responsibility to the community.	Helping others succeed facilitates my own success.	Consumers know more about their needs than I do.	I take personal responsibility for my work.	There is always a better way to do things.
Other people can always add to my original ideas.	The AER is not just a regulator.	People can be held accountable for things they don't control.	It is possible to consider consumer preferences alongside system/ economic outcomes.	The AER measures individuals' performance on outcomes, not just effort.	Not knowing the answer is a sign of strength, not weakness.
Diversity of age, gender, culture etc. add to a team's effectiveness.			Consumer perception is the truth (i.e. they are always right).	There are fair consequences for individual performance.	Mistakes are an opportunity to learn.
					Senior people are not considered the keepers of all the wisdom.

