Australian National University

Battery Storage and Grid Integration Program

An initiative of The Australian National University

Resetting energy regulation: putting people first

The Battery Storage and Grid Integration Program (BSGIP) welcomes the opportunity to provide input to the *Australian Energy Regulator's 'Better Resets Handbook – Towards Consumer Centric Network Proposals.* In section 1 of our submission we present our overall case for regulatory reform. In section two, we respond directly to three of the nine questions posed by the AER.

Section 1

Introduction

Australia is experiencing an energy transition of a scale and pace that continues to outstrip forecasts. Australians are taking matters into their own hands and are enthusiastically adopting new energy technologies at a record pace. It is from this vantage point that we commend and support the AER's move towards a more people-focused regulatory system that can respond to the needs and preferences of Australians as they change over time.

An inclusive energy system requires change from within the energy system that goes beyond its engagement with the public. It requires a fundamental shift from techno-economic regulation to socio-techno-economic (or integrated) regulation. The handbook currently reads like two separate parts – a part about engagement, and a part about technical regulation. The CAPEX and OPEX sections reflect a highly technical and constrained (aka technocratic) approach to regulation. How to integrate consumer views into this approach is a challenge that the AER appears to be leaving up to network businesses. We believe that the AER is perfectly positioned, and has a responsibility, to lead the sector in making a shift towards a fundamentally people-focused system, and the Better Resets reform could be a key opportunity for leadership.

Walking the talk

The framing of the Handbook, and the consultation around it, reflect a traditional energy system consultation. This is incongruous with the intent of the consultation to make a more people-focused energy system. The consultation itself is framed using energy system terms and concepts, which is likely to exclude most customers from engaging, and the process does not involve any measures to hear from voices beyond the 'usual suspects'.

Recommendation 1: The AER model good engagement by running a process to engage with a range of non-specialists in the community on the Better Resets proposal, presenting the results and indicating how they have influenced the proposal, as an extension of this consultation.

Inclusive engagement

We support the AER's clear recommendations and guidance on partnering with householders and ensuring that people's input has a meaningful influence on decisions. However, there is room for the AER to do more to address the issue of inclusiveness in their guidelines. Engagement with highly technical systems always involves trade-offs between inclusiveness and capacity to engage. At the same time, there is good evidence to show that investing in capacity building is possible and leads to outcomes that incorporate the needs of diverse people. There are always constraints on how inclusive a process can be. The guidelines recognise this but seem to suggest

that stakeholder comment on a draft proposal is a way of remedying this. We disagree. The guidelines need to include a clear expectation that engagement will seek to bring in a full range of views and perspectives, including marginalised ones. Support from the AER to reach and enable participation of diverse and marginal groups will likely be key to achieving the full intent of this reform.

Engagement processes should translate the complex, technical energy system into terms that people can understand. Translation is a challenging task that can take time. In attempting to reduce the difficulty of this task, the application guide has suggested engaging “suitably qualified” people, or “equipping” people who can then be suitably armed with jargon and technical knowledge to engage with the process. While the latter can be costly in time and resources, the former approach selects for people who are already engaged with the energy system, which generally represents a narrow slice of the user base. We acknowledge that the energy system is – and needs to be – complex, but it is possible to have an inclusive system that still contains the necessary complexity. Reducing barriers to people engaging in regulation is a valuable outcome and a key step to a people-focussed energy system.

The Handbook also mentions that it aims to explore people’s lived experience within the energy system. There are well established methods that have been applied both in Australia and overseas to understand lived experiences. These are primarily qualitative research designs that involve in-depth investigation into everyday practices around energy and new technologies. We would be happy to provide the AER with a list of resources on this topic already published. We strongly suggest that marketing studies from companies not suitably qualified in conducting social research would be unlikely to provide these insights.

Recommendation 2: The guidelines should signal a clear expectation that engagement needs to actively bring in a range of perspectives and concerns, including marginalised voices, in addition to providing a range of engagement channels.

Integrating social and environmental dimensions

The Handbook states that consultation should consider reliability, affordability, and security. To do this effectively, we suggest the AER explain how social and environmental dimensions are integrated in regulatory decision-making. For example, ‘affordability’ is not an objective parameter, it reflects values, which are diverse and dynamic. Providing clarity on the integration of social and environmental dimensions will enable network businesses to partner with people more effectively in engagement and regulatory decision-making.

It is not clear how networks are expected to consider the most vulnerable communities and members of communities, so that the ones that experience some form of energy precarity (e.g., high cost of energy relative to income level, experiencing frequent power outages) do not pay a higher share of the cost. Without explicit recognition of the socio-economic diversity that exists between and within communities/customers and the greater vulnerability of some, it is hard to see whether all members of communities will benefit from a more secure, affordable, and reliable network. In response to this, AER could provide more guidance and/or regulation about how networks could integrate these factors into energy price submissions.

The second missing dimension relates to the unprecedented changes in energy systems we are likely to see with on-going and increasing human-driven environmental challenges. The devastating bushfires that touched the lives of many during the 2019-20 Black Summer and led to many power outages is a case in point, but there will be more extreme weather events increasing in intensity that will contribute to significant disturbances in terms of price structure (e.g., sudden and/or continuous increase in electricity price), security (e.g., prolonged or temporary power outages), and reliability of networks. The AER should adopt a flexible process to assess applications and guide networks in their submissions.

Recommendation 3: AER should a) explain their expectations for techno-economic dimensions of regulatory proposals in ways that are more accessible, including to people and communities, and align better with expectations around engagement, and b) reflect on ways in which current approaches to enacting the Rules exclude consideration of dynamic social and environmental dimensions and by extension, community input. c) continue to develop approaches to integrating social and environmental dimensions in the regulatory framework.

Actions not words

The Handbook states that it aims to initiate change from business-as-usual. However, the current proposal does not make clear how it will contribute to actual change of practice and outcomes. In fact, there seems to be an investment in inertia. A key example of this is the focus on benchmarking to assess the quality of CAPEX and OPEX proposals. Benchmarking discourages change. Another example is the absence of a requirement for an auditing or evaluation plan to assess if change of practice and outcomes occurs in the short, medium, and long-term, and to recommend future actions to initiate such change.

This links to a broader issue of accountability in the implementation of changes promised to the community as part of this enhanced process. We feel the AER is best placed to enable this accountability and should be provided with the additional resources and mandate to be responsive to issues raised by householders. This mandate could expand AER's scope and include more significant incentives and compliance mechanisms (such as penalties) to support networks in their transition.

Recommendation 4: Proponents should include evaluation in their plans, and AER should support businesses to establish with relevant actors (including communities/customers) agreed metrics for measuring success.

Recommendation 5: AER should be provided with resources, mechanisms and the mandate to ensure the accountability of network businesses to their affected communities.

Recommendation 6: The AER should evolve their benchmarking processes to enable well-supported action by networks to reflect community needs – particularly those which involve changes to historical ways of doing business.

Thank you for the opportunity to respond to this important reform initiative. We welcome further engagement with the AER on this proposal.

About the ANU Battery Storage and Grid Integration Program

Established in April 2018 the Battery Storage and Grid Integration Program (BSGIP) consists of a diverse team designing and implementing the building blocks of a decarbonised and resilient energy system, for the benefit of all energy users. BSGIP's academic expertise ranges from computer sciences, engineering, physics, chemistry to economics and the social sciences. The program places a strong focus on transdisciplinary research, development and demonstration (RD&D). This submission is based on our extensive experience engaging with the community in the energy sector including projects such as New energy VOICEs (Victorian energy and water Ombudsman Investigation of Consumer Experiences), Community Models for deploying and operating Distributed Energy Resources, and Realising Electric Vehicle-to-grid Services (REVS).

Section 2

Answers to questions raised by AER

1) Do you consider the Handbook as set out will achieve the AER's aim of incentivising proposals that reflect consumer preferences and are capable of acceptance?

The Handbook provides clear recommendations and guidance on partnering with people and ensuring that community input has a meaningful influence on decisions, which will certainly provide the desired incentive. However, the AER needs to do more to address the issue of inclusiveness in their guidelines. It is not enough to engage 'suitably qualified' people, as this selects for those who are already engaged with the energy system and represents a narrow slice of the community. There are always constraints on how inclusive a process can be. The guidelines recognise this but seem to suggest that stakeholder comment on a draft proposal is a way of remedying this. We disagree. We believe that the guidelines should signal a clear expectation that engagement needs to actively bring in a range of perspectives and concerns, including marginalised voices, and 'equip' a diverse range of people to understand and engage with energy system decisions, beyond simply providing a range of engagement channels. We feel that the AER should play a role in supporting network businesses to reach and enable participation of diverse and marginal groups. Even though the energy system is – and needs to be – complex, it is possible to have an inclusive system that still contains the necessary complexity. We feel that reducing barriers to people engaging in regulation is a valuable outcome and a key step to a people-focussed energy system. 'Capable of acceptance' needs to mean more than 'no squeaky wheels' and needs to extend to diverse groups, including the marginal and disengaged.

The AER's Better Resets reform also needs to be understood as a step in a longer journey. Creating an inclusive energy system requires change within the energy system that extends beyond its interface to the public. This means moving beyond techno-economic regulation to socio-techno-economic regulation. To this end, AER needs to provide clearer advice on integrating customer input, and social dimensions more broadly, into regulatory approaches to CAPEX and OPEX proposals, which currently reflect a highly technical and constrained approach to regulation (see response to Question 3 below).

2) Do you agree with the proposed targeted review stream and that this a positive change to how we regulate networks?

The targeted review stream could be a positive change to network regulation. With a few improvements it could be even better. Specifically, we feel that the AER could play a greater role in engagement processes and how outcomes are evaluated.

Involving the community in regulatory processes is a good thing. They can provide real insight that creates a better energy system. This could be supported by an expanded advisory role for the AER. The community will require experts outside of networks to sense check networks' proposals. This expanded role would have flow-on benefits as when the AER enacts the review processes their involvement will enable them to better understand the proposal itself. Support from the AER could also be provided to reach and enable participation of diverse and marginal groups (as above). A section of the AER providing this kind of support, perhaps in conjunction with the Consumer Challenge Panel, could result in more robust and supported proposals and could be key to achieving the full intent of this reform.

A good proposal process cannot generate better customer outcomes if implemented poorly. Regulatory processes should include continuous review of implementation. Better community engagement can generate trust with communities, but poor implementation can lose this very quickly. AER should set a strong expectation around evaluation.

3) Do you consider the Handbook will improve the level of consumer engagement undertaken by network businesses and result in consumer preferences being better reflected in proposals?

Potentially this handbook can improve engagement and lead to regulatory proposals that better reflect community values, if attention is given to inclusiveness, as above. However, we are concerned that some of the content in this handbook appears to fall back to traditional technocratic ways of thinking. The handbook currently reads like two separate parts – a part about engagement, and a part about technical regulation. The CAPEX and OPEX sections reflect a highly technical and constrained approach to regulation. How to integrate community views into this approach is a challenge that the AER seems to be leaving up to network businesses. Some of the advice provided, e.g., 'consultation on outputs, then inputs', is confusing and unhelpful.

In particular, AER's reliance on benchmarking may create a barrier to change. If the intent of the "Better Resets" Handbook is to create revenue proposals that better reflect community sentiment, it is reasonable to expect these proposals will differ from historical proposals – If they don't why is this process needed at all? Benchmarks are likely to stand in the way of these changes. The regulatory framing and approach needs to evolve to integrate the concerns, aspirations and the lived experience of the community, in the context of changing sentiment and conditions, in order to anticipate and encourage changing network revenue needs.

As above, we think the answer to this is to work towards socio-techno-economic regulation, I.e. genuine integration of social dimensions, alongside technical and economic aspects, in regulatory decisions.

Specific suggestions

As well as these recommendations we have some specific suggestions to improve the readability of the guide:

- Add a glossary of terms
- 4.2 Change 'Nature of engagement' to 'Approach to engagement'.
- 4.3.2 This section is not very clear.

These proposals will require some increase in the AER's capability. We feel this is an investment worth making. A relatively small investment in the AER's resourcing can dramatically improve how the energy system is designed, operated, and maintained.