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Energy Strategy Submissions

Department of State Growth

GPO Box 536

Hobart, Tasmania, 7001

8 September 2014



Dear Sir / Madam

AGL Energy Ltd (**AGL**) welcomes the opportunity to provide comments to the Department of State Growth (the Department) on the Energy Strategy Issues Paper (the Strategy).

AGL recognises the Department will consult further on the Strategy as it develops a long term plan to develop and articulate the role that Government can play in creating the right environment for market participants, industry and consumers to meet the challenges and enjoy the benefits of a robust energy sector for the State.

AGL is one on the Australia's largest integrated energy retailers with more than three million customers in Victoria, New South Wales, South Australia and Queensland. AGL operates across the supply chain with investments in fossil fuel and renewable generation, natural gas exploration and production projects and delivery of a portfolio of energy services.

This submission highlights key considerations in the development of a long term and coordinated strategy by the Department. Each section looks at core principles and considerations and highlights issues that AGL note must be addressed as part of any strategic process.

AGL appreciates the opportunity to provide feedback on the Strategy and looks forward to working with Government through the implementation of the package over the coming months.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Tim Nelson'.

Tim Nelson

Head of Economic Policy & Sustainability



While the issues below have been noted separately, AGL highlights the importance of appropriately considering flow on impacts of individual decisions to monitor and ensure progress against overarching aims rather than point in time milestones or areas of public focus.

Retail Competition

AGL supports the encouragement and development of retail competition. Key aspects of energy policy that encourage competition should be considered as priorities.

Policy certainty is one aspect that can encourage competition as participants have greater ability to make longer term investments in resources and processes.

AGL recommends the government consider innovative approaches to reform that can have a beneficial impact on competition in the Tasmanian energy market. As an example, the government may consider a retailer led rollout of advanced metering. This would simultaneously provide retail businesses a broader range of products and services to consider when assessing the market as well as providing a platform for enhanced ability to provide new services into the future. This would be likely to facilitate greater participation in the Tasmanian market when compared to simply competing on traditional energy retailing products alone.

Tariff reform

In principle AGL supports the process of reform to ensure appropriate cost reflective tariff structures. AGL recognises the need to proceed carefully to ensure the process considers the immediate economic and distributional impact on business and households. This is particularly important with regard to vulnerable households and it is critical any tariff reform is accompanied by appropriate assistance measures (transitional or permanent) to maintain effective energy access for consumers in line with their needs.

AGL recognises the concentration of Tasmanian energy demand provides unique challenges for policy makers. That said, the use of energy (tariff or otherwise) pricing structures as a subsidy measure should be avoided where possible. The hidden or misunderstood nature of this type of assistance has the potential to create flow on impacts into residential households and vulnerable customers who may be required to bear the costs of such a subsidy in a manner inconsistent with the policy aims.

Tariff reform potentially requires parallel processes to support or advance it, the implementation of advanced metering capability providing one example. Policy makers should be cognisant of the need to appropriately sequence any strategic imperatives to provide the most efficient reform process over the long term.

Energy Efficiency

AGL supports the use of energy efficiency programs to the extent that there is a demonstrable barrier the program is seeking to overcome. As an example, AGL supports energy efficiency programs that provide for meaningful and targeted assistance to vulnerable households who are seeking to address energy costs but may lack the capital resources required.

Absent the targeting of a particular information or a resource barrier, AGL would consider broad based energy efficiency schemes an ineffective use of government resources.

Renewable Energy



AGL is a strong supporter of a renewable energy. However, given the current oversupply of capacity in the NEM and a stagnant or declining outlook for electricity demand, AGL does not believe current policy settings support investment in renewable energy without complementary policies aimed at resolving wholesale market investment intractability.

Given there is no unmet demand in the Tasmanian energy sector, AGL does not believe there is a case for further investment at the present time. This does not preclude the considerable opportunity for Tasmania in the longer term once the structural issues in the NEM are resolved.

Outcomes

The Tasmanian Government rightly places the welfare of its constituents at the core of its strategy and measures to assess the overall welfare to Tasmanian citizens should be at the forefront of its indicators for success. AGL recognises the Government's desire to proceed at an appropriately measured pace, allowing the recent reform aspects to be settled before proceeding to the next stage. This demonstrates an effective consideration of the strategic and long term nature of the reform process and should be recognised.

Critical to ensuring this long term success is to ensure an appropriate consideration of those who require assistance given the essential nature of electricity supply. As it progresses on the reform path policy makers should seek to ensure there is an appropriately designed shared responsibility framework that identifies the rights, responsibilities and the degree to which cost burdens should be carried by all aspects of the electricity value chain.

This approach of measuring overall welfare enhancement is an appropriate measure for a range of reform activity and ensures that potential cross subsidisation, wealth transfer and inefficiencies are identified and addressed as part of the reform process.

Research

AGL's Working Paper series is an applied research series coordinated by Professor Paul Simshauser and Tim Nelson. Of the 43 working papers published by AGL, 40 have subsequently been published in peer-reviewed academic publications. Given their relevance to a number of areas highlighted in the Strategy issues paper AGL has attached a short list of titles it considers relevant.

All of the Working Papers are available on the AGL Sustainability blog at www.aqlblog.com.au



2014

Working Paper 43: Energy-only markets and renewable energy targets: complementary policy or policy collision?

Working Paper 42: From throughput to access fees: The future of network and retail tariffs

Working Paper 41: On the inequity of flat-rate electricity tariffs

Working Paper 40: Solving for 'x' – the New South Wales Gas Supply Cliff

2013

Working Paper 38: What is Normal Profit for power generation?

Working Paper 37: Reconciling energy prices and social policy

Working Paper 36: The outlook for residential electricity prices in Australia's National Electricity Market in 2020?

2012

Working Paper 34: Metering and the principal-agent problem in restructured energy markets

Working Paper 33: When does retail price regulation become distortionary?

Working Paper 31: The Consequences of Retail Electricity Price Rises: Rethinking Customer Hardship

Working Paper 30: Queensland solar feed-in tariffs and the merit-order effect: economic benefit, or regressive taxation?

2011

Working Paper 27: Electric vehicles in the NEM: energy market and policy implications

Working Paper 24: Dynamic Pricing and the Peak Electricity Load Problem

Working Paper 22: A new approach to congestion pricing in electricity markets: improving user pays pricing incentives

2010

Working Paper 17 (Part I): The Boomerang Paradox: how a nation's wealth is creating fuel poverty and how to defuse the cycle

Working Paper 17 (Part II): The Boomerang Paradox: how a nation's wealth is creating fuel poverty and how to defuse the cycle