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Dr Wendy Craik AM
Chair The Energy Charter Independent Accountability Panel

By email: submissions@theenergycharterpanel.com.au

SUBMISSION ON 2019 ENERGY CHARTER DISCLOSURES

Dear Wendy,

Energy Consumers Australia is the national voice for residential and small business energy consumers. Established by the Council of Australian Governments (COAG) Energy Council in 2015, our objective is to promote the long-term interests of energy consumers with respect to price, quality, reliability, safety and security of supply.

Thank you for the opportunity to comment on the first disclosures by The Energy Charter companies.

Summary

The 18 companies that are the founding signatories of The Energy Charter have created an important new platform for change in the energy sector that delivers better outcomes for Australian households and businesses. Ten months after The Energy Charter was launched in January 2019, the companies have now made their first public disclosures as part of the first accountability phase of the initiative. The voluntary and collaborative nature of The Energy Charter means it stands apart from traditional approaches in the energy sector in Australia or indeed anywhere in the world where the supply chain has been disaggregated into separate businesses generating, transporting and selling electricity and gas to consumers.

In making this submission, we note at the outset that we do so thinking not just about the disclosures but also about our engagement with the companies and our observations overall. The accountability regime underpinned by robust governance and an evaluation process is critical, but we must keep in sight that it is a means to an end – the end being better outcomes for Australian households, businesses and the community. This is also a long-term project because cultural change does not happen overnight. What is critical is that we see in the first set of disclosures and the public statements by the CEOs, a commitment to make that change and a clear sense about how they plan to do so.

Overall, we are pleased with the progress the companies who made the significant commitment to sign up to The Energy Charter have made in the first year. Information about how the companies are aligning with the five customer-outcomes principles that The Energy Charter is based on has been consolidated into a single document, which provides an important new resource for stakeholders. The disclosures and the public statements by CEOs also contain information which has not previously been in the public domain – notably about internal incentive structures for employees including CEOs and senior managers.

A number of the CEOs have also used The Energy Charter to provide a frank assessment about how their companies and the sector have let consumers down and made clear personal commitments to do better. It is notable in many of these statements that CEOs are thinking about their task in terms that go beyond efficiently managing energy infrastructure and generating returns for their investors. Issues around how to position their businesses in a transitioning market where it is not just the technology



that is changing but customer and community expectations around fairness and trust, which need to feature in a new energy compact.

What the first year of The Energy Charter has done, is consign to history the tired and out of date view that if a consumer got a bad outcome in this market it was really their own fault for not engaging or not making the right choice. There are glimpses in what we have seen to date through The Energy Charter of a new ethic and culture of companies taking more responsibility for consumer outcomes.

In this submission we identify examples of information that has been disclosed against the five principles, which we believe is significant and worthy of reflection by the Independent Accountability Panel (Panel). There are also clear areas for the companies to focus on in the coming year to maintain and build forward momentum including:

- Stronger and more transparent links between the priorities and needs of different consumers and strategy, activity and service, to allow companies to better articulate the ‘why’ behind the decisions they’re making.
- Clarity about how the companies are organising and resourcing their efforts to meet the intent of The Energy Charter which is about going beyond what is required by governments or regulators.
- Agreement on a set of measures that can be adopted by companies, which reflect core consumer outcomes and can help translate the ambition articulated by CEOs into structural and cultural change within businesses and across the sector.

Affordability, trust and a changing market

Consumers are telling us that energy services are not affordable and that they are not value for money. The price of energy has essentially doubled in the past 10-15 years for many, far exceeding wage growth and with extraordinary price spikes along the way and is a root cause of the dissatisfaction we see coming through the Energy Consumer Sentiment Survey.¹ This need to improve affordability as quickly as possible is critical context for The Energy Charter.

The Energy Charter is also about restoring trust and confidence in the sector. Consumers are telling us that they are not confident the sector is working in their long-term interests. This of course is also an issue in banking and other sectors and importantly, one that goes beyond the ‘price’ of the service.

Respected political commentator Paul Kelly, has argued that companies need to fundamentally re-orientate the way they do business to reconnect with their customers and the community:

“The public feels its lack of power. It wants to be enabled; at heart it seeks a more participatory form of service delivery. Its resentment at the oligopolistic and patronising nature of Australian corporate power – from retail to telecommunications to energy – is growing.”²

Rebuilding trust that the sector is working in the long-term interests of consumers is not just important in its own right, but central to successfully managing the energy transition. We are in the midst of a profound change in the way Australian households and small businesses power their homes and their small businesses.

¹ <https://energyconsumersaustralia.com.au/publication/energy-consumer-sentiment-survey-findings-june-2019>

² <https://www.theaustralian.com.au/nation/inquirer/the-nations-great-trust-crisis-hits-home/news-story/ac878b67aad9c78341c4ebc0bef2afbc>



More than two million Australian households are now not just buying electricity but generating it on their roofs – driven by necessity and enabled by new technology. A system that was once centralised and ‘one-way’ (a ‘small number of large things’), is increasingly decentralised and two-way (a ‘large number of small things’). Consumers will, for example, be reluctant to let energy service providers into their home (e.g. to remotely manage their air-conditioner) to help balance the energy system or to improve affordability in a low trust environment. And consumers will be reluctant to take on new responsibilities or make changes in the way they use energy associated with achieving the long-term goal of moving to a net zero economy by 2050, without trust.

The role of The Energy Charter

We cannot rely just on regulation to deliver better affordability, restore trust and achieve long-term objectives in this environment of extraordinary complexity and uncertainty.

Open and honest dialogue between consumers and the companies in the energy sector is needed that is unmediated by frameworks that are about process and compliance rather than outcomes and innovation. Our research also shows there is a willingness in the community to play an active part, in managing change: whether that is by sharing energy with a neighbour who is having trouble paying their bills; or partnering with sector to keep the power on during heatwaves.³

Leadership from CEOs and Boards is also critical, given the need to line up vision, skills, incentives, resources and actions in a way that builds trust as we move through the paradigm shift that is the energy transition.

The Energy Charter recognises in its own words that this is the key ambition for the Energy Charter:

“The energy system is at a pivotal point of transition as we move from a centralised system to a system that is increasingly decentralised. The successful evolution of the energy system depends on harnessing the significant natural advantages Australia has for conventional and cleaner energy and leveraging innovation in technology and service delivery.

Integral to the success of that transition is that the Australian community has trust and confidence in energy businesses and the energy system. Over the past decade, electricity and gas costs have increased and confidence in energy businesses has eroded. The findings and recommendations of key reports have identified the complex reasons for energy bill increases. The Australian Competition and Consumer Commission said in its 2018 report that the energy market needs to be reset. Energy affordability, reducing emissions and the transition to a cleaner energy system, reliability and ensuring equitable access to energy for all Australians have been identified as key priorities for the community.

Ensuring that the community has confidence in energy businesses is critical to delivering the energy system that Australia needs for the future. Although the transition of the energy system

³ According to the Energy Consumer Sentiment Survey, around 45% of residential consumers are prepared to reduce their energy use during periods of high demand. An additional 25% of respondents indicated they would reduce their demand if there was an incentive to do so. Around 60% of small business consumers think consumers should be rewarded for reducing energy use during peak periods.

<https://energyconsumersaustralia.com.au/publications/energy-consumer-sentiment-survey-findings-june-2019>



requires the collective efforts of government, regulators and energy businesses, the energy industry acknowledges the significant role it must play.⁴

The community rightly has high expectations and the credibility and legitimacy of The Energy Charter not only depends on demonstrated results in terms of affordability and service outcomes, but rigorous and transparent governance. The Panel has a critical role to play in this regard, and the consultation and evaluation process it has developed will help build the confidence of stakeholders in the initiative.

We see The Energy Charter as a vehicle for the dialogue and animating cultural and structural changes led from the top. This in our view is the principal lens through which the Energy Charter Independent Accountability Panel should evaluate the companies' first disclosures. It is also why, in our view, significant weight should be placed on the public statements by the CEOs in the meetings with the Panel.

The first year

The companies have made a significant investment and effort to lodge the first disclosures in the ten months since The Energy Charter was launched in January 2019. Change in large organisations, particularly those with responsibilities in a complex and tightly-coupled system, must be done in a considered and systematic way that takes time. The first year is about establishing focus and reporting and establishing a new baseline at a company and sector level for future work.

We are therefore pleased to see in the first disclosures and the public statements by the CEOs, the beginnings of what will hopefully be a virtuous cycle of disclosure, reporting, and reflection, on these critical elements. Specifically, through this year's disclosures and public statements, we now have a clearer view about the following things:

- the extent to which the companies are organised around the needs, preferences and priorities of their customers and their vision and plans to change, including:
 - how companies think about the challenges associated with social licence and trust in businesses operating in markets for essential services;
 - how CEO's think about fairness, and seek to align the interests of consumers and shareholders, and manage potential tensions;
 - information about internal KPIs linked to customer experience and whether they are tied to remuneration outcomes for senior executives and other employees;
 - acknowledgement by some companies about gaps in what they know about their customers and the new measures they are developing to inform decisions; and
 - specific initiatives and structural changes to accelerate cultural change e.g. creating the role of 'Chief Customer Officer' reporting to the CEO.
- how the companies understand the affordability challenge different consumers are facing and the role they can play in relation to costs and pricing; and in creating value for consumers by helping them manage their energy use, including:

⁴ The Energy Charter, https://www.theenergycharter.com.au/wp-content/uploads/2019/04/TheCharter_20190328.pdf



- whether and how they have absorbed increases in supply chain costs to reduce or stabilise prices;
 - whether and how they are taking positive steps to ensure households and businesses are on the best deal for them;
 - if and how they are becoming more efficient and passing on savings to customers; and
 - whether they are thinking broadly about how they can leverage their position in the supply chain to create and share value for end users.
- if and how the energy transition is changing the way companies approach delivering energy in a safe, reliable and sustainable way, and the extent to which they have a forward-looking vision and strategy and are resourcing innovation, including:
 - the rationale for major investments, or decisions to close assets or change the way they are operated;
 - if and how strategy is informed by long-term decarbonisation targets and industry transformation frameworks e.g. CSIRO-ENA Electricity Network Transformation Roadmap;
 - participation in voluntary schemes to reduce emissions or deliver other environmental outcomes e.g. The Science Based Target's Initiative.
 - how the companies are engaging directly with consumers about their transition strategy, plans and projects and whether there is a clear link to decisions;
 - the transition initiatives the companies are supporting and how they are seeking to collaborate with other stakeholders e.g. ARENA Virtual Power Plants Trials;
 - the implications for employees, in terms of the new skills that are required to deliver services in a changing market, including in relation to investments in professional development and training; and
 - case studies about working directly with customers to address reliability problems associated with extreme weather, and whether systemic changes have been made to address underlying problems.
 - what the companies believe a good customer experience looks like, and their level of ambition for making it easier for people to make choices and manage their energy use, including:
 - how companies have responded to consumer dissatisfaction with complicated and confusing offers and discounting practices which undermined the price safety-net;
 - examples of ways the companies are partnering with consumers to help them manage their use and support the grid e.g. app-based demand response programs that reward customers for reducing their use at critical times;
 - the innovation projects they are supporting and the extent to which they fit into a broader framework and can be linked to outcomes for consumers; and
 - the issues that consumers are making complaints about (including verbatim feedback in some cases), trends over time and how they engage with ombudsman services.



- how the companies seek to identify people and businesses who are in vulnerable circumstances and provide tailored services and additional support, including:
 - statements by CEOs committing to better outcomes for all customers, not just those who can engage to get the energy services they need;
 - lists of mechanisms related to serving customers in vulnerable circumstances e.g. pre-emptive frameworks to identify people who need additional support, Flexible Payments Programs and Bring Your Bill Days;
 - details about how the companies work with community and social service groups to deliver additional support through those organisations that consumers trust;
 - examples of voluntary initiatives by companies to write-off debts for people in vulnerable circumstances or providing funding for No Interest Loans programs to subsidise energy efficient appliances; and
 - details about who is responsible for supporting customers in vulnerable circumstances within the organisations and how they are trained and resourced.

Where to from here

There is a significant amount of information and detail in the disclosures and CEO public statements that will take time for the companies and stakeholders to reflect on and form views about what it means in terms of gaps and best practice now, and ambition, strategy and plans to deliver better outcomes for consumers in the future.

We would anticipate that individual companies will be reviewing what has been disclosed to undertake their own analysis of issues to address and opportunities to learn from other organisations. We would encourage companies to engage with their customers and stakeholders in this process. One of the first priorities should be a sorting exercise, to identify the key things that have the potential to materially improve outcomes for consumers. There is a significant amount of information in the disclosures which is useful to inform the baseline in the first year, but which need not be the focus of discussions about real change going forward.

Energy Consumers Australia's research, and experience in other markets, shows that great consumer outcomes depend on companies meeting consumers where they are: understanding their specific needs and tailoring services accordingly. While some companies provided examples of how they are offering more individualised services based on an understanding of the different needs of a particular group of customers (e.g. dairy farmers with refrigeration needs) we would like to see much greater ambition, clearly communicated in the coming years.

The first disclosures also provide an impetus for focussed, well-resourced and collaborative work at a sector level. The Better Together initiatives that are being discussed by the Industry Working Group are a starting point for collaboration and should now be reviewed in light of what has been disclosed to ensure they are geared to the priority matters.

Another focus next year should be on developing common measures reflecting consumer priorities and metrics reflecting a level of ambition tied to the urgent need to restore energy affordability and trust. A common framework can help 'put the sector back together' to deliver whole of system outcomes for consumers in a disaggregated market.

The disclosures also demonstrate the need for an overarching, long-term transition framework for the Australian energy system. While there is evidence that the companies are investing in innovation, it is



difficult to form a view about the effectiveness and direction of that effort. The role that The Energy Charter can play as a catalyst for a more structured and well-communicated approach to long-term planning and an orderly transition, should be a priority matter for the CEO Council.

Conclusion

Thank you for the opportunity to make this submission. If you would like to discuss this submission further, please do not hesitate to contact Chris Alexander, Director Advocacy and Communications, on 02 9220 5500 or chris.alexander@energyconsumersaustralia.com.au.

Yours sincerely,

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