

Subject: Fwd: FW: Were You Going to Send Me Some Info Comrade?

From: lance [redacted] NR

To: mangocube6@yahoo.co.uk

Date: Tuesday, 17 February 2015, 3:19:55 pm AEST

Comrade,

With respect to implementing the merger policy, attached is an unreleased consultant report that was prepared in conjunction with Curtis (he has a copy) and formed part of the fiscal and economic platform. The sections relating to rebates and directly funding solar weren't picked up but the merger efficiencies and maintenance of the UTP were. The report will give a very good overall context to the energy policy reforms, minus the industrial issues.

More paperwork to read is not really what you might need now, so if you want me to come and brief you on it (or any other issue) privately I'd be more than happy to make myself available to give you a chop out as you get things up and running. There are other issues like pricing and AER determinations that we should have a chat about too.

Understand you have a temp CoS in place so assume issues like staffing resourcing (eg how many staff and budget to get allocated to your office from Premiers), DLOs etc is being worked out. If you want any advice from me on these kinds of issues, or senior staff in the energy and water departments don't hesitate to ask. Eg, you may be aware that Kathie Standen is a GM on the energy side.

I've got a few people who might be able to be tempted to come back, eg one is a very good water policy advisor who I've worked with previously, so will flick through CVs to this email address as they become available.

Chat soon, L.

From: Mark Bailey [mailto:mangocube6@yahoo.co.uk]
Sent: Monday, 16 February 2015 10:22 PM
To: Lance McCallum
Subject: Were You Going to Send Me Some Info Comrade?

Send it to this email address please... thanks! M

--

Lance McCallum

[redacted] NR

lance [redacted] NR





Released under RTI Act - TMR

Subject: FW: media inquiry from Townsville Bulletin

From: Mark.Bailey@ministerial.qld.gov.au

To: mangocube6@yahoo.co.uk

Date: Saturday, 21 February 2015, 9:55:01 am AEST

From: Ellen McIntyre

Sent: Friday, 20 February 2015 3:08 PM

To: Mark Bailey

Subject: RE: media inquiry from Townsville Bulletin

I don't think so Mark. It'll take too long. However, I will send them a courtesy copy for their records.

From: Mark Bailey

Sent: Friday, 20 February 2015 3:06 PM

To: Ellen McIntyre

Cc: Bob Macdonald

Subject: RE: media inquiry from Townsville Bulletin

Good to go Ellen. Only thought would be to run it by Scott Stewart, Aaron Harper and Coralie O'Rourke, our Townsville MPs and check that reads ok with them... M

From: Ellen McIntyre

Sent: Friday, 20 February 2015 1:53 PM

To: Mark Bailey

Cc: Bob Macdonald

Subject: media inquiry from Townsville Bulletin

Tsv Bulletin is chasing follow up comments from you re the below story that ran in their paper during the election.

TOWNSVILLE will be home to one of two government-owned power companies if Labor wins office. Labor plans to merge the three power distributors - **Ergon**, Energex and Powerlink - and the two generators - CS Energy and Stanwell - into a single generating body and a single distribution body, leading to savings of more than \$130 million a year.

Opposition Leader Anastacia Palaszczuk said she made the decision to base one of these companies in Townsville after strong representations from candidates Scott Stewart, Aaron Harper and Coralee O'Rourke.

'This decision is about keeping our assets in public hands and ensuring Government sector jobs that are based in Townsville, stay in Townsville,' she said. 'Keeping one of the merged GOCs (government-owned corporations) in Townsville will ensure local jobs are protected.'

I suggest we respond with:

"The government remains firmly committed to meeting our election promise to the people of Townsville. As the Premier mentioned, this is about keeping our assets in public hands. It's also about protecting government jobs in Townsville at a time when jobs and job security are more important than ever. We owe a huge debt of gratitude to our power and energy workers. Their job is not nine to five. While we're safely at home during major storms and cyclones, they're out there working in what can sometimes be difficult conditions restoring vital power supplies to households across the state. That's happening right now in cyclone and flood-affected parts of the state."

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Subject: Requested Article for ETU Journal - Draft

From: mangocube6@yahoo.co.uk

To: ellen.mcintyre@ministerial.qld.gov.au; bob [redacted] NR

Date: Sunday, 1 March 2015, 9:29:12 pm AEST

Hi Ellen and Bob,

Deadline on this is yesterday so it needs to go asap. Can you have a look over it and give me your feedback please? Thanks!

Mark

On January 31st, Queenslanders made history and voted for change.

They did that by voting out a government with the largest political majority in our nation's history after just one term in office.

They voted to create jobs, not slash them. They voted to keep our public assets, not sell them. They also voted for accountable and transparent government and to restore frontline services.

There is no doubt that the Not4Sale campaign and the campaigning of many ETU members in the election over the twelve months leading up to the election had a significant impact on the result. Well done to Stewie, Lara and everyone who got involved.

I'm proud to be part of Anastacia Palaszczuk's' new Labor Government in Queensland as the new Member for Yeerongpilly and the new Minister for Energy and I look forward to working with you for a fairer, more just Queensland.

Unlike the ousted Newman LNP Government, we'll be keeping our election promises which means no sell off of our energy generators CS Energy and Stanwell and no sell off of our electricity network distributors and transmission companies Ergon, Energex and Powerlink.

Labor's policy is for **mergers** of the two generators into one new government owned corporation and the amalgamation of the three transmission and distribution businesses into one merged network government owned corporation.

There will be no forced redundancies by managing the staffing transition through natural attrition and a voluntary separation process.

The government's first priority has been preparing for and responding to Category 5 Cyclone Marcia's devastating impact on Central Queensland and in particular Rockhampton, Yeppoon, Biloela, Jambin and Monto.

While the cyclone fortunately has taken no lives, it has been devastating for thousands of central Queenslanders with over 600 houses made uninhabitable and 63700 homes and businesses left with out power.

Yet, in less than a week, 939 power workers from Ergon and Energex have converged on CQ and reconnected 62500 premises (97%) within a week.

It has been a herculean effort from power crews and support staff from as far as the Gold Coast, Cairns, Ipswich and Mareeba who have selflessly traveled far and worked long hours to help the people of Central Queensland.

Please accept my sincere and heartfelt thank you to every worker who has helped in the CQ recovery. You have made a difference. It was an honour to meet power workers and say a few words of thanks on behalf of the Palaszczuk Labor Government at the Saturday Rockhampton morning muster recently.

I look forward to working in partnership with you to make our state once again a fair, inclusive and prosperous state that treats people with respect and listens to their concerns and feedback.

Warmest wishes,

Mark Bailey
Minister for Main Roads, Road safety and Ports
Minister for Energy and water Supply

Subject: etu article edits

From: bob NR

To: mangocube6@yahoo.co.uk; ellen.mcintyre@ministerial.qld.gov.au

Date: Sunday, 1 March 2015, 9:50:37 pm AEST

Mark,

Just a few quick thoughts/edits

bob



On January 31 Queenslanders not only voted for change.docx
119.7kB

Released under RTI Act - TMR

On January 31 Queenslanders not only voted for change, they made history.
~~st, Queenslanders made history and voted for change.~~

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Minister for Main Roads, Road Safety and Ports

Minister for Energy and water Supply

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Subject: Fw: etu article edits

From: mangocube6@yahoo.co.uk

To: andrew@etu.org.au

Date: Friday, 20 March 2015, 4:46:41 pm AEST

Hi Andy,

This is good to go with the following adjustments please;

Add to Simmo to thanks to Stewie,Lara and others.

Also to tidy up the CQ response - the whole system in CQ was restored in only 12 days after being smashed by TC Marcia. It took 23 days post Yasi. A excellent effort to get 63700 homes restored. so fast. Ergon and Energex crews involved.

Also an additional reference in passing to TC Nathan where 438 premises affected but once again Ergon crews on the ground ready and swift in their response to help FNQers.

If you could tidy it up a little with these addendums, that would be great Andy. Thanks. And ta for your patience and persistence!

Mark



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Warmest wishes,

Mark Bailey
Minister for Main Roads, Road Safety and Ports
Minister for Energy and water Supply

Subject: Opportunities: Qld Energy Polcy

From: p.newbury@business.uq.edu.au

To: mangocube6@yahoo.co.uk

Date: Thursday, 11 June 2015, 3:19:05 pm AEST

Hi Mark,

I hope you are well and all of your portfolios are well under control.

With my PhD journey at UQ set to finish in mid-July I am increasingly focusing on opportunities that align with my own skills, experiences and qualifications.

As such I am keen to play some role in supporting the transition of the electricity industry in Qld in the coming years in accordance with the Govts plans and aspirations. Therefore, I am seek to determine whether you expect there may be some opportunities arising in the near term for example, the merger project for ENERGEX, Ergon & Powerlink, the Qld Productivity Commission review of electricity pricing or some policy role assisting yourself or within DEWS.

In addition, I look like traveling to India for a weeks in late July enroute to London where I will speak at a conference. I will be hosted my The Energy and Resources Institute (TERI) University, originally established by Tata Corp. As part of this visit I will be speaking to TERI and Tata about a possible collaboration with UQ and the Qld Industry to export electricity skills, training and development expertise. There could be some great PR for Qld out of this for your portfolio and I would be happy to brief your staff if you have any interest.

I'd be keen to get your thoughts on both of these matters at some point if possible.

Kind regards

Paul Newbury

MBA MInfTech BCom PgDipEntr PgDipSI CPA GAICD

PhD Candidate (Thesis submitted & under examination)

UQ Business School

The University of Queensland

Brisbane QLD 4072 Australia

Ph: +61 NR E: p.newbury@business.uq.edu.au

UQ Student Profile: <https://www.business.uq.edu.au/staff/details/paul-newbury>

Linkedin: <http://au.linkedin.com/pub/paul-newbury/11/67a/ab8>

Subject: Fw: Opportunities: Qld Energy Policy

From: mangocube6@yahoo.co.uk

To: denise.spinks@ministerial.qld.gov.au

Date: Saturday, 13 June 2015, 4:39:27 pm AEST

Let's discuss... M

On Thursday, 11 June 2015, 15:18, Paul Newbury <p.newbury@business.uq.edu.au> wrote:

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I hope you are well and all of your portfolios are well under control.

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Linkedin: <http://au.linkedin.com/pub/paul-newbury/11/67a/ab8>

Released under RTI Act - TMR

Subject: RE: Opportunities: Qld Energy Polcy

From: p.newbury@business.uq.edu.au

To: mangocube6@yahoo.co.uk

Date: Wednesday, 17 June 2015, 5:01:47 pm AEST

Hi Mark,

Look forward to talking further when you are ready.

Regards

Paul Newbury

From: Mark Bailey [mailto:mangocube6@yahoo.co.uk]
Sent: Saturday, 13 June 2015 4:40 PM
To: Paul Newbury
Subject: Re: Opportunities: Qld Energy Polcy

Hi Paul,

Thanks for your email and apols for delay responding. I'll discuss this with my COS and get back to you. Sounds like a great opportunity and we'll see what we might be able to do to support. M

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Subject: Re: Opportunities: Qld Energy Polcy

From: mangocube6@yahoo.co.uk

To: p.newbury@business.uq.edu.au

Date: Thursday, 18 June 2015, 4:42:44 am AEST

Hi Paul,

Will do soon. M

Sent from my iPhone

On 17 Jun 2015, at 5:01 pm, Paul Newbury <p.newbury@business.uq.edu.au> wrote:

Hi Mark,

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<image001.jpg>

Released under RTI Act - TMR

Subject: Gauging Interest in Recent PhD Research Findings for Study of Australian Electricity Industry Transformation focusing on Monopoly DNSPs

From: p.newbury@business.uq.edu.au
To: paul.simshauser@dews.qld.gov.au
Cc: mangocube6@yahoo.co.uk
Date: Tuesday, 1 September 2015, 4:57:43 pm AEST

Hi Paul,

We have never actually met, albeit that we share many common connections across both industry and academia. I am making contact on the basis that I have just completed my PhD at UQ which has used an evolutionary economics model (Sectoral Systems of Innovation) to examine the transformation in the Australian electricity industry, primarily from the viewpoint of the DNSPs. The research examined the attributes and interplay between 4 core sectoral elements, namely: 1) technology & knowledge; 2) actors & networks; 3) institutions; and 4) demand. Having previously worked in senior executive roles in ENERGEX (for 15 years) I was able to persuade

13 of the Australian DNSPs to participate in the study along with the then Chairman of the AER (Andrew Reeves), the ENA, the EUAA and CSIRO.

I recently submitted my thesis for examination and so have moved on from the UQ Business School and am now based at the UQ Global Change Institute (GCI) where I am preparing a research proposal for a joint study of the Indian electricity system (with the Indian based 'The Energy & Resources Institute (TERI)) using a similar approach to that adopted in my PhD for the Australian industry. This opportunity has come about after I was approached by the President of the Australia-India Business Council and invited to visit India to meet with representatives from government, industry, academia and NGOs in connection with their ambitions to improve the Indian electricity system. I have recently returned from that visit and there is considerable interest in India for a joint research project.

Whilst I have some interest in the Indian electricity system and the spin-off opportunities it may present for Qld (e.g. export of vocational training, skills and capability development), it has always been my desire to use my industry experience and research findings to contribute to the Qld electricity industry reform and transition process. Therefore, I am seeking to determine whether you expect there may be some opportunities arising in the near term for example, the merger project for ENERGEX, Ergon & Powerlink, the Qld Productivity Commission review of electricity pricing or some policy role assisting yourself or with in DEWS.

I have attached two recent conference papers for your interest, the first was delivered last month at Imperial College London and the second was recently accepted to the IEEE Conference in Brisbane in November. The latter, whilst brief may be an interesting read from the perspective of the challenges facing ENERGEX and Ergon Energy. These papers represent only a small subset of the broader research which I believe may be of interest.

I'd be keen to get your thoughts on whether any opportunities that match my skills might arise in the coming months and would also be happy to come in and brief yourself or your DEWS colleagues on the findings from my research, should there be any interest. I'd also be happy to provide a copy of my PhD thesis once it has the results of the current external examination process.

I have also copied this email to the Minister whom I have previously been in contact with about these matters.

Kind regards

Paul Newbury

PhD (Thesis under examination) MBA MInfTech BCom PgDipEntr PgDipSI CPA GAICD

Honorary Research Fellow - Clean Energy
Global Change Institute
The University of Queensland

Global Change Institute, The University of Queensland, St Lucia, QLD 4072, Australia
P: (+61 7) 3279 0781 | M: NR E: p.newbury@business.uq.edu.au | I: <http://gci.uq.edu.au>
CRICOS provider number: 00025B



London Business Conf Paper - Paul Newbury (Final).pdf
1.6MB



IEEE Paper (Newbury & Paterson).pdf
369kB



Short Form CV - Paul Newbury (August 2015).pdf
377.7kB

Released under RTI Act - TMR

Technological Change and the Creative Destruction of Electricity Industry Monopolies: Sectoral Systems of Innovation Study

Paul Newbury *

The research applies a sectoral systems of innovation lens to explore the evolution of sectoral boundaries in a highly regulated industry during a period of significant technological disruption and change. A qualitative case study, with data collected through semi-structured interviews with representatives across the Australian electricity industry, supplemented by participant archival documents and publically available information. The research findings show that during an extended period of stability in the industry, the economic, policy and informal institutions have become closely synchronised with the traditional technological regime and the assumptions embedded within those institutions reflect this. However, a more recent period of technological turbulence and disruption has permanently altered the underlying technological trajectory of the sector. The change in technological trajectory has challenged and in some cases invalidated many of the core assumptions embedded within the institutional landscape. Ten areas were identified where embedded assumptions have been shown to be invalid or being seriously challenged. These areas relate to technological innovation and adoption, business models, market structure, competition, customer power, economies of scale, asset useful life, demand and industry attractiveness.

JEL Codes: B52, D42 and L94

1. Introduction

Electricity utilities across the globe face an uncertain future as the industry undergoes a substantial transformation driven by a range of factors including the move to low-carbon energy systems, changing electricity usage patterns, government energy and environment policies and advances in renewable electricity generation and delivery technologies. The evolutionary economics literature describes how 'creative destruction' is an ongoing cycle of innovation and renewal and that disruptive technological change can lead to firms and industries being substantially reshaped or eliminated entirely (Schumpeter, 1950). We also know that patterns of innovation and market structure are essentially determined by the nature of the relevant technological regime which are not fixed but change over time (Nelson and Winter, 1982; Breschi, Malerba, and Orsenigo, 2000).

* Paul Newbury – PhD Candidate, University of Queensland, Business School
Colin Clark 39 Blair Dr, St Lucia QLD 4072, Brisbane, Australia
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Periodically a disruptive event may occur that changes markets and industries and has a destabilising effect on established firms who may have difficulties when confronted by radical change (Christensen, 1997). Incumbent firms often find it difficult to respond to disruptive technological innovation for a variety of reasons and this phenomenon is sometimes referred to as the 'incumbent's curse' (Chandy and Tellis, 2000), 'innovator's dilemma' (Christensen, 1997), the 'Icarus paradox' (Miller, 1992) or 'core rigidity' (Leonard-Barton, 1992). We also know that whilst some incumbents decline and die, others are able to adapt and survive (Hill and Rothaermel, 2003; Ansari and Krop, 2012). This raises interesting research questions as to why some incumbents decline and die whilst others are able to evolve, adapt and prosper. With the value of electricity distribution networks generally measured in the billions and electricity being an essential service, the question of incumbent survival is of great significance, not only for the firms themselves, but also for governments, consumers, business, industry and society in general.

The purpose of the research is to apply a sectoral systems of innovation (Malerba, 2004) lens to explore the evolution of sectoral boundaries in a highly regulated industry during a period of significant technological disruption and change. The study explores how the interplay between the core sectoral elements (knowledge & technology; actors & networks; institutions and demand) impacts the patterns of innovation activity and the evolution of sectoral boundaries. Unlike previous studies, which have examined sectors and incumbents in fully competitive markets, the research targets a sector dominated by firms who operate in a highly regulated monopoly industry structure. Furthermore, the industry under review is undergoing a period of considerable technological change.

2. Literature Review

The primary theoretical frame for this research is 'Sectoral System of Innovation (SSI), which is grounded in evolutionary economic theory and the innovation system approach (Malerba, 2005. Malerba (2002, 2005, 2006) argues that innovation within a sector has relevant systemic features and undergoes processes of change and transformation through the coevolution of its core elements, namely: technology and knowledge, actors and networks, institutions and demand. On this basis, Malerba (2005 p.65) defines a Sectoral Systems of Innovation (SSI) framework in the following terms:

"Sectoral systems of innovation have a knowledge base, technologies, inputs and a demand. They are composed of a set of agents carrying out market and non-market interactions for the creation, development and diffusion of new sectoral products. These agents are individuals and organisations at various levels of aggregation, with specific learning processes, competencies, organisational structure, beliefs, goals and behaviours. They interact through processes of communication, exchange, cooperation, competition and command. Institutions shape their interaction. A sectoral system undergoes processes of change and transformation through the coevolution of its various elements."

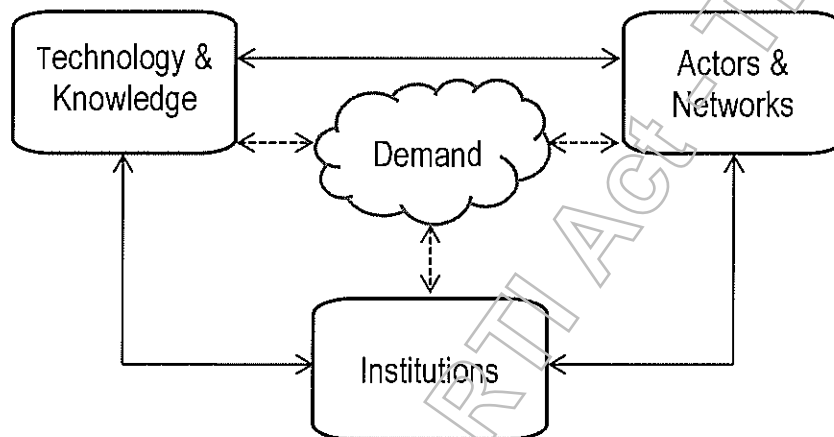
Based on this definition, a sectoral system is composed of four main building blocks as depicted in Figure 1, including:

- a) *Knowledge & technology*: Any sector may be characterised by a specific knowledge base, technologies and inputs;
- b) *Actors & networks*: A sector is composed of heterogeneous agents that are organisations or individuals. Agents are characterised by specific learning processes, competencies, beliefs, objectives, organisational structures, and

behaviours, which interact through processes of communication, exchange, cooperation, competition, and command;

- c) *Institutions*: Agents' cognition, actions, and interactions are shaped by institutions, which include norms, routines, common habits, established practices, rules, laws, standards etc. Institutions range from those that bind or impose enforcements to ones that are less binding and less formal.
- d) *Demand*: is made up of individual consumers, firms and public agencies, each characterised by knowledge, learning processes, competencies and goals, and affected by social factors and institutions.

Figure. 1: Sectoral Systems of Innovation (SSI) Framework.
(Adapted from Malerba, 2004)



The sectoral systems of innovation framework derives its origins from three areas of research in economics and innovation studies (Malerba, 2005; Malerba and Adams, 2014). The first is the literature on *change and transformation in industries*, which includes studies on industry life cycles (Utterbeck, 1994; Klepper, 1997) as well as broader analyses of the long-term evolution of industries as found in Schumpeter (1950), and more recent work on the patterns of innovative activities and technological regimes (Malerba, and Orsenigo, 1996; Dosi, 1997). Schumpeter (1934, 1939) was interested in innovation either as a process of 'creative destruction' or as a process of 'creative accumulation' (Pavitt, 1984) and believed innovation was closely linked to the emergence, growth and decline of industries. The second area of research in which the sectoral systems approach is grounded is *evolutionary economics theory*, which places a key emphasis on dynamics, innovation processes and economic transformation (Nelson and Winter, 1982). Evolutionary theory acknowledges that environment conditions and sectoral context affect agents' cognition and behaviour (Dosi, 1997; Metcalfe, 1998; Malerba and Nelson, 2011). The third theoretical origin of the sectoral system of innovation framework is the *innovation systems* literature, in which relationships and networks are key elements of the innovative and production processes (Edquist, 1997). The 'innovation system' approach considers innovation as an interactive process among a wide variety of actors. It stresses the point that firms do not innovate in isolation: innovation is seen as a collective process. In the innovative process firms interact with other firms as well as with non-firm organisations and their actions are shaped by institutions (Edquist, 1997; Lundvall, 1993). There is an absence of empirical research into the co-evolutionary processes that occur in highly regulated industries, particularly those that are subject to technological discontinuities. This underexplored area in the literature is topical for industries such as the

electricity industry which is facing significant challenges brought about from technological discontinuities, changing customer preferences, new policy and institutional settings and the introduction of new entrants to an industry which has historically been devoid of mainstream competition since the establishment of the first electrical power distribution system in New York in 1882 (Hughes, 1983).

3. Research Design and Methods

The case method is the most appropriate for studies that ask 'how' and 'why' research questions (Yin, 2009) and as such was adopted in this instance. Data was collected primarily via semi-structured interviews with management representatives of 13 Australian electricity Distribution Network Service Providers (DNSPs) along with representatives from the Australian Energy Regulator (AER), Energy Networks Association (ENA) and Energy User Association of Australia (EUAA). Interviewees were asked their opinions and perceptions across a range of topics including: the nature and significance of challenges facing Australian DNSPs; the readiness of their organisation to meet the challenges; the extent of any strategic repositioning undertaken or contemplated by their organisation and the role of innovation in that context; current and anticipated impacts of emerging technologies; differences between public and private ownership; business model considerations, the threat of an electricity demand 'death spiral' and finally, the nature and extent of any constraints which they felt may hamper or impede their organisation in meeting the challenges they face. Archival documents from various sources were also an important element of the data collection and also helped to triangulate interview data. Data analysis was undertaken to sift through all of the relevant data to develop an understanding of how the core components of the sectoral systems framework interact and influence firm activities. This was done through a series of steps and involved preliminary analysis, an initial phase of coding to identify broad themes and a second phase to explore emergent themes more deeply. The analysis process concluded with 'within-case' comparisons across the sector. and each of the study participants.

4. Findings and Discussion

The data collected from interviews and other means highlights particular interactions and events that have been influential in the evolution and reshaping of sectoral boundaries. Consistent with the transformation of other industries (e.g. telecommunications, photography, music, automotive etc) the transformation of the Australian electricity industry cannot be explained by a single event or driver but rather a convergence of circumstances that challenge pre-existing structures, relationships, technologies and institutional frames and lead to an evolution of sectoral boundaries. Specifically, the evolution of sectoral boundaries has been shaped by the interplay between the core variables in connection with a number of key areas including the international climate change agenda, peak demand, DNSP infrastructure investments, business models, regulatory frameworks and pricing structures, consumer behaviour change and the impact of new and emerging technologies. Each of these topics is discussed in the following sub-sections along with graphical representations of the interactions between the core sectoral variables.

4.1 International Climate Change Debate

We start our discussion by focusing on the global climate change debate as a key driver of change. Whilst this debate began outside the traditional sectoral system in the international scientific community, it has quickly gained momentum in the media and is now broadly acknowledged as one of the major challenges facing the planet. The issue of how best to

address this risk and avoid the potential implications of climate change is a key focus on the international stage and as such, government policies are being developed and implemented, albeit that there is no universally agreed approach or policy framework. From a sectoral systems viewpoint, the climate change debate has had a number of impacts. Firstly, it has led to national and state policy frameworks for energy and the environment, which seek to reduce carbon emissions and promote desirable behaviours through a range of incentives and penalties. Examples include signing the Kyoto Protocol, setting national carbon emissions reduction targets and introducing a range of policy structures and mechanisms to support the achievement of these targets (e.g. renewable energy target, carbon pricing mechanism etc). Whilst international emissions reductions targets remain intact, the two major political parties in Australia have different policy approaches to achieve the desired outcomes. As such these institutional policy frameworks remain unsettled. The climate change debate has also stimulated significant investment into clean energy technologies by R&D institutions, suppliers, manufacturers and new entrants and the demand for these technologies, particularly electricity generation via solar PV is penetrating mainstream customer markets. Similarly, the climate change debate has also raised consumer consciousness about the potential impacts of climate change and the need for action. It has also put high emitting industries (e.g. power energy generation and their owners, on notice that change to current practices are expected. Figure 4.1 provides a graphical representation of the interactions between core SSI variables described above.

The discussion and diagrammatic representations of key interactions between core sectoral variables provide insights, which inform the literature:

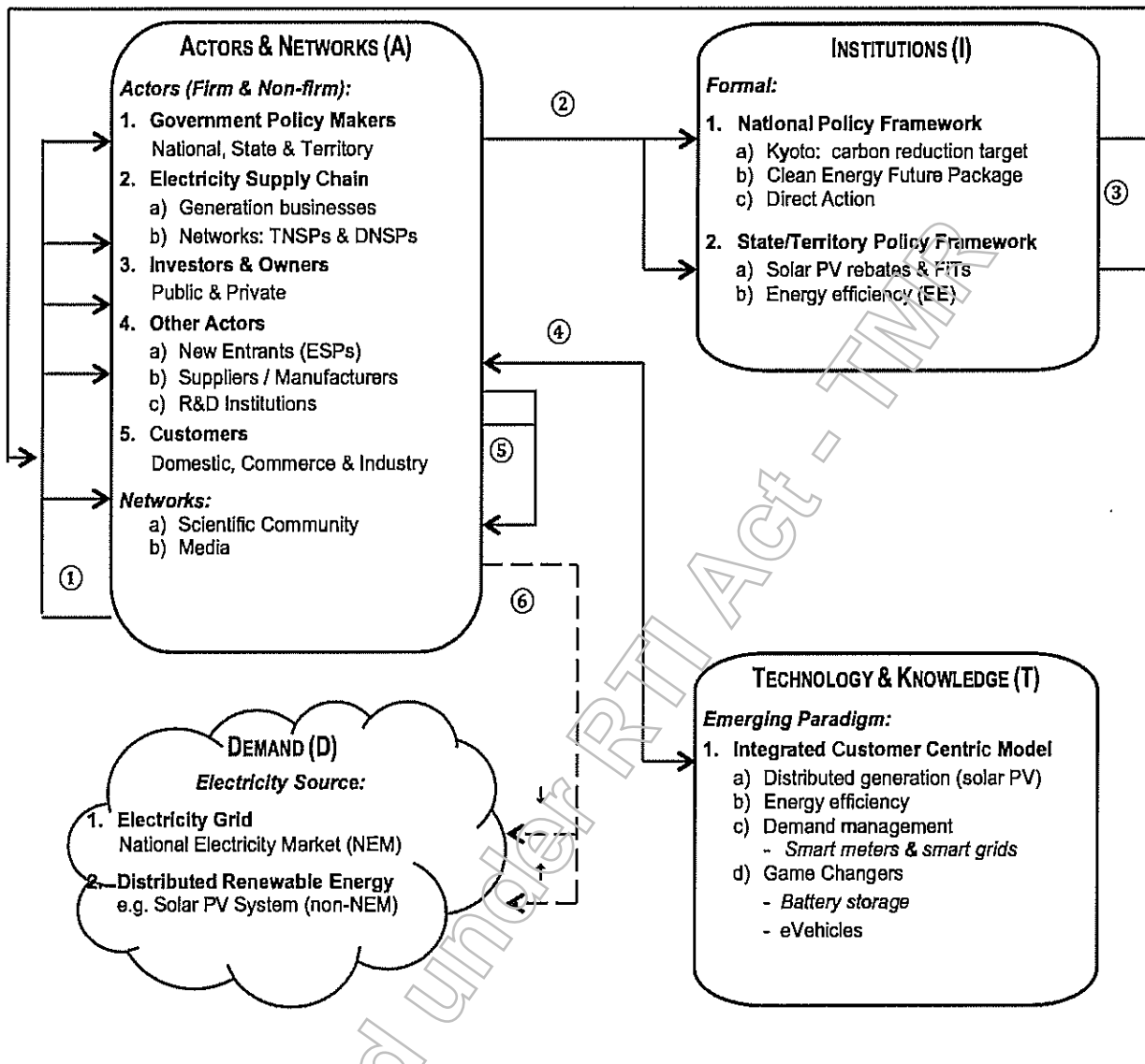
a) *Interplay between international, national, state, sectoral and firm level institutions reshapes sectoral boundaries:*

Figure 4.1 shows the relationship and cascading effect between the various layers of institutions within the sectoral system of innovation. Specifically, international institutions (e.g. Kyoto Protocol) triggered policy development at a national and then state/territory level. These subsequently flow through to sectoral regulatory institutions and finally to the firms themselves, whether in the form of formal rules (i.e. strategies, policies, standards and guidelines) or informal norms, routines and mental modes (e.g. organisational culture and attitudes). So whilst the literature indicates that actor's actions are shaped by institutions, the institutions themselves are also shaped by their interconnectedness with other institutions.

b) *Direct and indirect institutional impacts:*

Whilst formal institutions might set out the 'rules of the game' and drive certain behaviours, we see a number of different types of impacts flowing from institutional mechanisms in this instance. For example, renewable energy targets, carbon pricing mechanism and various incentives for distributed renewable energy generation directly target behaviour change in certain actors. In this instance, the introduction of those institutional mechanisms also had indirect impacts in the form of sending a clear signal to investors, new entrants, R&D institutions and the general public that governments were serious about their commitment to reduce carbon emissions. Consequently, we have seen considerable investment in R&D for new clean technologies and a flood of new entrants who see an opportunity to sell energy solutions based on these new technologies. Media coverage of these institutional mechanisms has also contributed to raising awareness among consumers about the potential impacts of climate change and the need to take action to reduce carbon emissions.

Figure 4.1 – SSI Interactions Relating to Emergence of Climate Change Debate



Interactions Summary

- ① International scientific community raise awareness via the media about potential risks to climate change from continued carbon emissions.
- ② National and State governments introduce policies to address climate change, reduce carbon emissions and encourage adoption of clean technologies.
- ③ Government policies aim to influence the behaviour of various sectoral actors through incentives, penalties and information.
- ④ Investment flows into R&D for clean technologies by R&D institutions, suppliers & new entrants but not by traditional electricity supply chain participants.
- ⑤ Consumers procure new clean technologies (e.g. solar PV, energy efficient appliances etc) from energy solution providers, suppliers and manufacturers.
- ⑥ Electricity sourced using distributed renewable generation technologies (e.g. solar PV & wind) increases, whilst electricity sourced from the NEM decreases.

c) *Impacts of institutional uncertainty*

We know from the literature that sectoral actors interact through processes of communication, exchange, cooperation, competition and command and these interactions are shaped by institutions. In the Australian electricity industry context, we see that the level of certainty, or in this case uncertainty, associated with institutions can also be influential. For example, the former national government introduced a suite of initiatives including a Renewable Energy Target (RET), which sought to stimulate investment in renewable energy generation projects. A change in government in late 2013 led to a review of the RET, with the government publically expressing its desire to reduce the current target. Uncertainty about the future of the RET has contributed to a significant decline in investment into clean energy generation projects, despite the government having made no policy decision as yet.

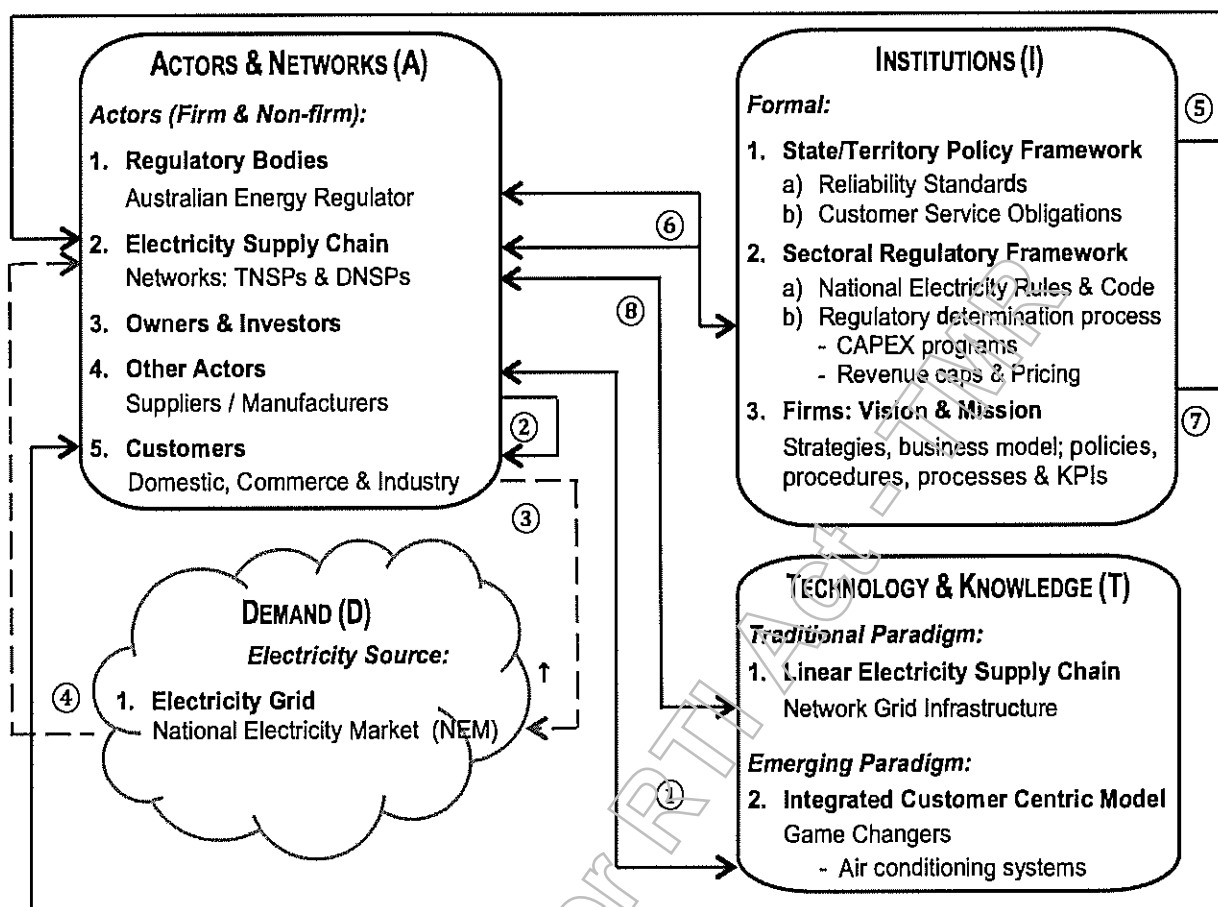
4.2 Peak Demand and the Infrastructure Investment Megacycle

During a five year period to 2012, in excess of \$36B was invested in electricity distribution network infrastructure, an increase of around 60% on the previous regulatory period. Simshauser and Nelson (2012) label this as an *'investment megacycle'*. DNSPs had argued the investment was necessary to replace aging infrastructure and cater for anticipated growth in consumer demand within the NEM, both total demand and peak demand. Consumer peak demand for electricity in the NEM had increased significantly following a rapid penetration of air conditioning from 1999 onwards. This was largely due to low cost Chinese imports that made air conditioning more affordable to consumers. At the time, almost all Australian residences used accumulation meters (i.e. not smart meters) which are typically read manually on a quarterly basis and do not allow for time-of-use (TOU) tariffs. Time-of-use tariffs would have allowed 'demand management' via a price signal (i.e. higher tariff) to discourage consumer energy usage during peak periods. Without smart meters and time-of-use tariffs, DNSPs did what they have always done in the past... they built more network infrastructure to cater for growing peak demand. Despite networks assets being significantly underutilised, the regulatory framework still allowed DNSPs to pass on the cost of network investments to consumers via increased tariffs. The continued underutilisation of assets now raises the potential for stranded assets and write-downs of asset values, thus impacting the attractiveness of these businesses to owners, investors and lenders. Figure 4.2 provides a graphical representation of the interactions between core SSI variables and provides insights which inform the literature:

a) *Formal & informal institutions contribute to poor investment decisions:*

We know the actions of actors are shaped by institutions (Malerba, 2005). In this instance, a combination of formal and informal institutions has led to unintended consequences and ongoing issues for consumers, regulators, DNSPs and others. We know the traditional response of DNSPs to demand growth is to build more network and there is little risk to the DNSPs from such an approach given that electricity pricing structures set out the regulatory framework allow DNSPs to recover the costs of capital investments from consumers over the life of the asset. This is reinforced in statements by the AER Chairman who describes the mindset of DNSPs: *"...we are from the network service provider, we know what's good for you, we will build it, get out of our way"*. However, the fact that peak demand occurs rarely and for relatively short periods means that electricity network assets are substantially underutilised. For example, a senior executive from one DNSP stated: *"...I think it's 13% of our assets only get used for 30 hours a year, something like that. That's like \$600 or \$700 million, right. It's a lot of money just to sit there for 30 hours."* To address peak demand issues, consumers must be subject to economic pricing signals (i.e. higher tariffs) to

Figure 4.2 – SSI Interactions Relating to the Network Investment Megacycle



Interactions Summary

- ① Advances in technologies and manufacturing processes lead to low priced air conditioning units flood into Australia, primarily from China, around 1999.
- ② The number of homes with air conditioning doubles during the period 1999-2007.
- ③ The rapid penetration of air conditioners increased NEM total and peak demand.
- ④ Increasing demand trend was expected to continue and DNSPs anticipated a need to augment networks to cater for increased demand, particularly peak demand.
- ⑤ State governments impose network reliability standards and customer service obligations which must be met by DNSPs. Penalties apply for non-compliance.
- ⑥ Regulatory determination process approval significant DNSP network infrastructure investment based on anticipated demand growth, replacement of aging assets and meet network reliability standards of state governments.
- ⑦ The regulatory framework and determination process allowed DNSPs to pass on costs of the 'network investment megacycle' through increased electricity tariffs.
- ⑧ With AER regulatory approval, DNSPs undertook substantial CAPEX programmes to strengthen electricity distribution networks. Building network was the default response by DNSPs facing demand growth but is not appropriate as the sole strategy to address peak load growth. However, DNSPs had limited options due to absence of TOU tariffs, smart meters.
- ⑨ Underutilised assets raises risk of 'stranded assets' & balance sheet write-downs.

discourage consumption during peak periods, thus reducing the peak and the need for 'gold plated' networks. This is done through time-of-use (TOU) tariffs. Unfortunately, time of use tariffs require smart meters or interval meters to be installed that record the time of use. Victoria is the only state to have rolled-out smart meters. Without the proper technological equipment (i.e. smart meters), the alternative was to build more network but this has led to significant price rises and underutilised assets.

4.3 Natural Monopoly Regulation, Pricing & Business Models

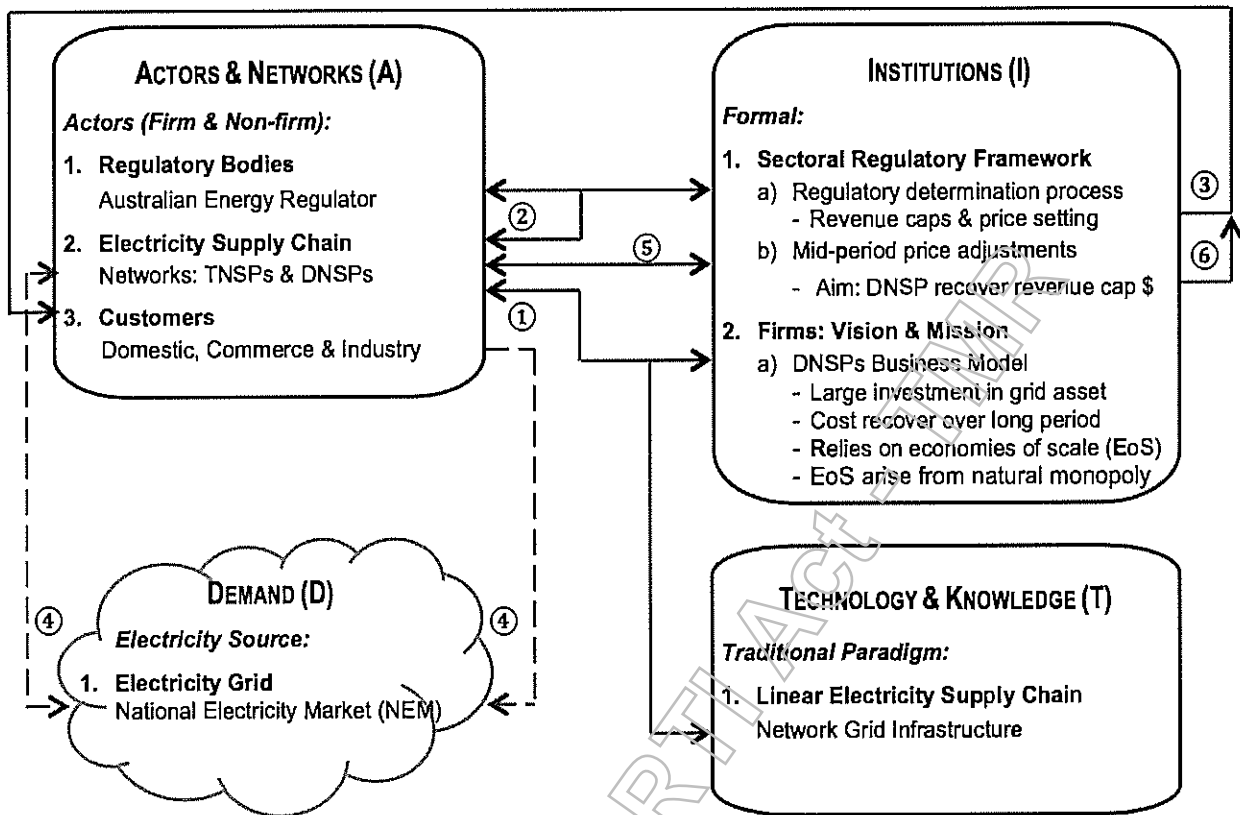
As has been the case for over 100 years, the business model for electricity DNSPs is based on making significant long-term investments in electricity network infrastructure and passing the costs to consumer over the useful life of the assets. This business models depend on the ability to achieve economies of scale which have historically existed due to their status as natural monopolies and the fact that no technically or economically feasible alternative existed for consumers who were essentially captive. This approach was also central to the regulatory institutions that were established to ensure DNSPs did not exploit their monopoly status to the detriment of consumers. The process for setting prices (i.e. tariffs) involves a regulatory determination by the Australian Energy Regulator (AER) which allows DNSPs to earn an approved revenue amount or cap over the 5-year regulatory period. Once a revenue cap is set, the DNSPs forecast the expected consumption across the period and then the price (i.e. unit price per kWh) is derived by dividing the revenue cap by the expected kWh to be consumed. To protect consumers from being exploited, when actual consumption exceeds forecasts, the DNSPs must reduce prices to ensure they collect no more than their approved revenue cap. Conversely, should consumption be less than forecast, DNSPs can apply to the AER to increase the price to ensure they recover the approved revenue cap in full. It is this latter point which is problematic and highlights a fundamental flaw in the regulatory framework. Specifically, based on historical trends over decades, there was an implicit underlying assumptions that electricity consumption would always trend upward over the long term and therefore, the ability for DNSPs to adjust prices upward exists merely as a balancing mechanism to ensure DNSPs to put forward best estimates of electricity demand rather than trying to 'game the system'.

In simple terms, if consumers reduce consumption of electricity sourced from NEM, this in turn reduces the revenues earned by DNSPs, who simply apply for a price reset to increase the unit price to ensure recover the full revenue cap amount approved by the AER. Confronted by these higher prices, consumers either reduce consumption further via energy efficient appliances, altered usage patterns or by sourcing electricity from an alternate technology such as distributed renewables (e.g. solar PV). This would later be shown to be problematic in the face of an extended period of declining electricity demand, as I will discuss in connection with the electricity 'death spiral' scenario. The preceding discussion and diagrammatic representations (Figure 4.3) of key interactions between core variables provide insights which inform the literature:

a) *SSI approach useful in highlighting institutional policy failures:*

The sectoral system of innovation approach has been a useful tool in highlighting certain institutional policy failures within the existing institutional landscape. The failures stem from underlying assumptions about the nature of the industry and the interactions between its actors, which have been embedded within regulatory and firm level institutions. Specifically, there is an implicit assumption that the natural monopoly status of DNSPs will remain intact indefinitely and that no disruptive technological event will occur that renders the current technological paradigm obsolete. Similarly, until recently it was assumed that electricity

Figure 4.3 – Natural Monopoly Regulation, Pricing & Adjustments



Interactions Summary

- ① DNSPs are natural monopolies which are subject to regulatory price oversight to protect consumers from abuse of monopolistic power. DNSPs operate large and expensive electricity distribution networks which have a 40yr useful life. DNSP business models rely on economies of scale to spread the fixed costs of building and maintaining the network across a large base of customers. Economies of scale have historically existed due to DNSP status as natural monopolies and the fact that consumer had no real alternatives (i.e. captive consumers).
- ② DNSPs submit a regulatory submission (containing costs data, proposed capital programs, expected demand etc) to the AER who assess it and make a determination which allows DNSPs to earn an agreed amount (i.e. 'revenue cap') over the 5-year regulatory period.
- ③ The portion of the total electricity price that relates to the DNSP is calculated by dividing the revenue cap amount by the estimated electricity consumption over the 5 years period. This contributes to the unit price which customers are charged for electricity consumed.
- ④ Annual demand is closely monitored DNSPs as revenues are based on the electricity consumption of customers. Annual consumption is compared against forecasts submitted as part of the 5-year regulatory determination process.
- ⑤ If consumption is more than forecast, the unit price can be adjusted downward but where consumption is less than forecast, prices are increased. The price increase or decrease adjustments ensure DNSPs earn their AER approved revenue cap.
- ⑥ Pricing adjustments result in increase or decrease in the unit price of electricity.

demand would always trend upwards and never decline. The evidence we have for this is twofold. Firstly, the regulator allows DNSPs to make large investments in network infrastructure assets on the basis that they will have a useful life of 40 years and continue to derive an income for the DNSP for the duration of that period. Secondly, the traditional business model adopted by DNSPs is dependent upon achieving economies of scale in order for the significant fixed costs of building and maintaining the networks to be spread across a large customer base. Historically, these economies of scale have been achieved

By DNSPs on the basis of their status as a natural monopoly and the knowledge that consumers were essentially captive, with no cost competitive alternative existing for the supply of electricity. Furthermore, since the 1890's the electricity industry has evolved on the basis that electricity cannot be stored effectively. However, advances in both small and grid scale storage technologies are challenging the traditional technological paradigm. Using an SSI approach to analyse the interplay between SSI core variables, we can see how the decline in demand in the NEM (since 2008) and the introduction of competition from new entrants and emerging technologies has challenged traditional assumptions. The natural monopoly status of DNSPs is being eroded by solar PV which is providing a cost competitive alternative for consumers. Economies of scale are also declining and threaten the sustainability of DNSP business models. Hence, some of the regulatory mechanisms that currently exist are no longer appropriate, particularly the process for approving capital investment programs, setting revenue caps and electricity prices.

b) *Stranded asset risk transferred to consumers:*

It is difficult to contemplate another industry setting where declining demand leads to increased prices. This flaw in the regulatory pricing mechanism is articulated by Energy User Association of Australia (EUAA) Director, who expressed his concern that DNSPs continued to invest in electricity infrastructure at a time when demand was declining, effectively meaning that DNSPs were "...able to pass its stranded asset risk on to consumers." The Director points out that under the current regulatory framework DNSPs have not been punished for poor investment decisions in the same manner as would be the case in other industries and investment contexts.

c) *Institutional evolution: The changing role of the Australian Energy Regulator (AER)*

A sectoral system undergoes processes of change and transformation through the coevolution of its various elements (Malerba, 2005 p.65). To date, I have spoken in some detail about the evolution of sectoral boundaries and how this transition has been influenced by a range of factors. What is apparent from the scenario described above, and from discussions with the Chairman of the Australian Energy Regulator (AER) is that the institutions themselves are evolving in response to the changing sectoral landscape. For example, the AER exists for the purpose of regulating natural monopoly DNSPs to ensure consumers are protected from an abuse of monopoly power (e.g. excessive prices; poor customer service). However, the introduction of competition in the form of distributed renewable energy generation means that consumers now have choices in sourcing electricity. We have already evidenced this newfound choice in the rapid penetration of solar PV. Whilst the introduction of competition is still relatively new, competitive intensity is likely to increase as emerging technologies mature and become more efficient and cheaper. With the natural monopoly status of DNSPs expected to gradually erode as competitive intensity increases, the role of the AER is likely to evolve. Rather than exclusively concerning

themselves with the regulation of monopolies, the AER will play an increasing role in managing the transition to a more competitive environment. This is reflected in the interview comments of the Chairman of the AER who states: *“In 10 years we’re still going to be bouncing off the walls dealing with new and emerging issues. There are winners and there are potentially losers. The important thing is to manage the impact on losers, that is... manage the transition. Because if we don’t change, we’ll all be losers.”*

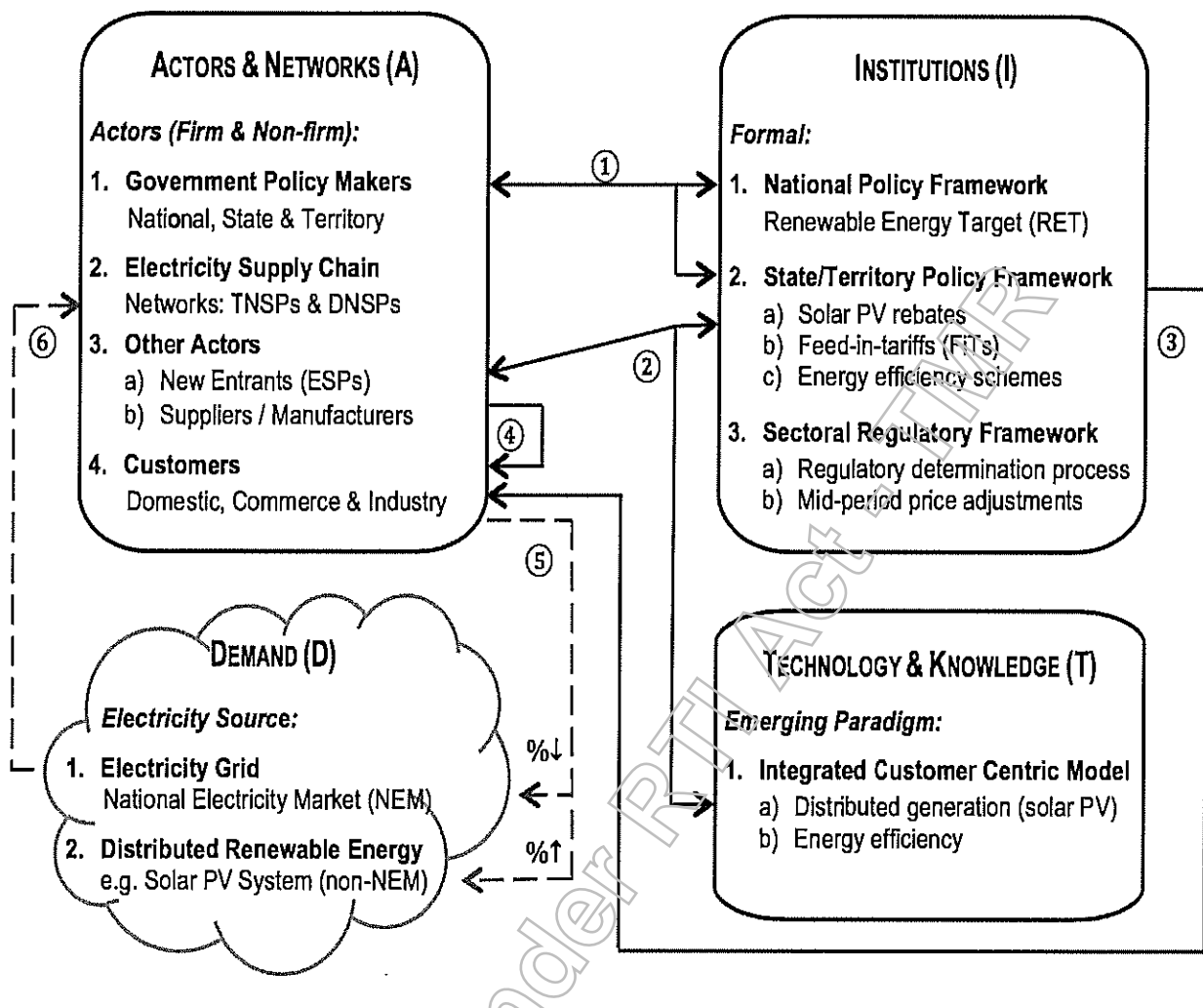
4.4 Consumer Choice and the Rapid Penetration of Solar PV

Significant electricity price increases over the last decade have meant that consumers are faced with a number of choices. They can simply pay the higher prices without changing their energy consumption patterns or they could adjust their behaviours to reduce their usage, adopt energy efficient appliances or seek alternative sources of electricity. With regards to the latter, coinciding with the upward trend in electricity prices, governments across Australia introduced a range of mechanisms to reduce consumption and incentivise the take-up of solar PV. These incentives ranged from rebates and grants to subsidise the purchase and installation of solar PV as well as feed-in-tariffs (FITs) that allowed consumers to sell excess generation capacity back into the grid to earn income. With electricity prices in the NEM trending upwards and an influx of new entrants (i.e. energy solution providers), the incentives for solar PV proved popular with consumers and led to the rapid penetration of solar PV across Australia. The rate of penetration of solar PV systems far exceeded estimates by AEMO and governments who subsequently ceased incentive schemes or amended them to be less attractive (i.e. reduce FIT). Overall, the increase in electricity demand from renewable sources understandably resulted in a decline in the electricity demand in the NEM. As indicated earlier, the declining trend in NEM electricity demand triggers a further cycle of price rises, hence making solar PV even more cost competitive. Figure 4.4 provides a graphical representation of the interactions between core SSI variables and provides insights which inform the literature:

a) *Rate of diffusion of new technologies difficult to predict:*

Governments and regulatory institutions significantly underestimated the popularity of solar PV, and consequently did not foresee the impacts that a rapid penetration would have on demand. For example, in 2011 the AEMO predicted it would take until 2030 before solar PV would diffuse to 30% of residential households across Australia. Queensland and South Australia have already exceeded 30% in 2014, with penetration in other states and territories progressing quickly. Similarly, many state and territory governments introduced incentive (e.g. rebates & feed-in-tariffs) schemes to encourage adoption of solar PV. The uptake was so popular that schemes were quickly removed and feed-in-tariffs reduced. The difficulties in anticipating the emergence and impact of new technologies is reflected in the interview comments of AER Chairman who stated that it was not the role of the regulator to try and pick winners in terms of emerging technologies but rather to create an environment for innovation to flourish.

Figure 4.4 – Rapid Penetration of Solar Photovoltaic Systems



Interactions Summary

- ① National, State & Territory governments introduce a range of policies to encourage the adoption clean technologies, consistent with the target to reduce carbon emissions.
- ② New policy mechanisms provide a stimulus for new entrants, i.e. Energy Solutions Providers (ESPs), selling energy solutions based on new clean technologies e.g. rooftop Solar PV.
- ③ New policy mechanisms, along with the trend of increasing prices for electricity sourced from the NEM, provide incentives for customers to adopt solar PV and other clean technologies.
- ④ These incentives trigger the rapid penetration of rooftop solar PV systems across Australian residential domestic consumers, particularly in Qld & S.A.
- ⑤ The rapid penetration of rooftop solar PV means that the aggregate demand for electricity from distributed renewable energy generation technologies increases, whilst demand for electricity sourced via the NEM declines (i.e. consumers are no longer 100% dependant on the NEM).
- ⑥ Declining electricity demand sourced via the NEM inevitably triggers further price increase in accordance with the processes graphically represented in Figure 4.2.3.

b) *Technology and the rise of consumer empowerment:*

For well over 100 years, electricity was almost exclusively delivered via a linear electricity supply chain by utilities that operated as natural monopolies. Under such circumstances consumers had little or no bargaining power and no option but to source their electricity from the electricity network. Whilst the cost of electricity remained low consumers were generally satisfied with these arrangements. However, a decade of rising electricity prices coupled with the recent availability of new technologies (e.g. Solar PV, energy efficient appliances etc) means that for the first time since the inception of the electricity industry, consumers have choices when it comes to electricity sourcing decisions. AER Chairman, (2012, p.2) notes that DNSPs have traditionally been 'engineering oriented' rather than 'customer oriented' but new regulatory reforms will "...give consumers much more power in the regulatory process." In fact, a common theme that emerged from interviews with DNSP management was the need to better engage with customers as part of a transition to an integrated customer centric model of electricity delivery.

c) *Impact of localised factors on technology adoption and diffusion*

Using solar PV systems as an example, we can see how new technologies can rapidly penetrate the Australian market place despite not having been developed or manufactured in Australia. AER Chairman, notes the rapid adoption of both air conditioners and solar PV in Australia were heavily influenced by low cost products manufactured in China and imported to Australia. However, whilst solar PV has quickly diffused in Australia, the effectiveness and impact of such technologies varies depending on localised factors. The Australian PV Institute suggests the performance of a solar PV system is impacted by a range of factors including solar radiation and weather. In simple terms, solar PV technologies are more effective in locations (and countries) with an abundance of sunlight. Similarly, consumer rooftop solar PV technologies may be less popular in communities with high density housing, on the basis that occupants of high-rise apartments have no rooftop. On that basis, we may not expect to see solar PV have the same impact on demand in the UK, where solar irradiation is much less, or in Hong Kong or Singapore where people predominately live in high density, high-rise apartments.

4.5 Pending Game Changers: Battery Storage & Electric Vehicles

a) *Technological trajectories, regimes and discontinuities*

The idea of technological regimes is closely related to the concept proposed by Schumpeter in *Business Cycles* (1939), which emphasized the discontinuities associated with the introduction of radical technologies and the disruptive effects that these may have on the dynamics of the whole economy (Castellacci, 2008). Garavaglia et al (2012) suggest the variables that define a technological regime are indeed fundamental determinants of the mechanism governing the relationship between market structure and innovation. With this in mind, the bundling of solar PV and battery technologies represents a new and different technological regime for electricity delivery on the basis that it allows consumers to service their electricity requirements without the need to access traditional electricity infrastructure associated with the linear electricity supply chain model that have existed since the late 1800's. The solar PV and battery bundle represents competition for the electricity grid and as such, any market share it attracts will erode the economies of scale that underpin the business models of incumbent DNSPs.

b) *Adoption of new technologies: Why timing and rate of adoption matter*

We have already seen how the rapid and unexpected penetration of both air conditioning and solar PV has impacted demand. The former drove a sharp increase in peak demand where the latter led to a decline in demand within the NEM. With this in mind, we should contemplate the potential impacts arising from the availability of low cost efficient batteries. There is broad consensus that prices for energy storage will fall in coming years, but what is less clear is how far these prices will fall and how quickly. This is an important debate because a significant drop in battery prices could have 'game-changing' effects across the industry. Widespread penetration of batteries would support renewable generation to shift timing of generation export to the grid and allow better management or reduction of distribution system peaks and troughs. It will also give consumers a level of independence from the electricity grid if desired. It will also drive the uptake of electric vehicles. The latter two points both have significant implications for electricity demand. For example, when paired with solar PV, batteries provide consumers the ability to reduce the electricity sourced from the NEM. Rather than selling excess generation capacity back into the NEM, the consumer could store the excess in batteries for use in the evening peak period. The decline in demand during the peak evening period could significantly reduce revenues of DNSPs and further undermine their business models. It would also be a trigger for further rounds of NEM electricity tariff increases (as described in Figure 4.3).

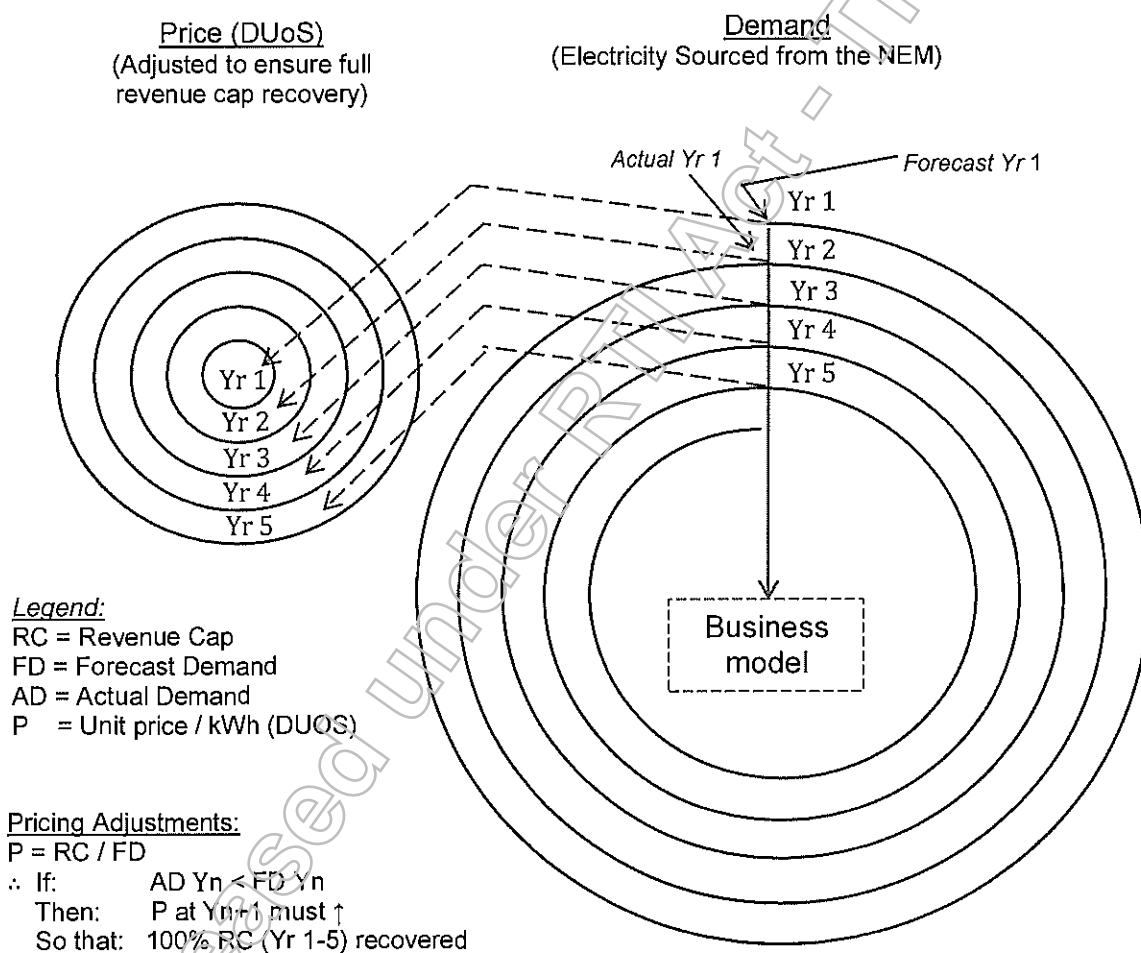
The availability of more efficient and cheaper batteries will also play a fundamental role in the diffusion of electric vehicles in the future. In contrast to batteries paired with solar PV which threatens to reduce NEM demand, the regular recharging electric vehicle batteries is anticipated to significantly increase demand for electricity sourced from the NEM. With battery storage technologies likely to impact NEM demand both positively and negatively, the real issue becomes timing. Whilst most expect the diffusion of electric vehicles to offset this decline and in fact lead to a rise in electricity demand in the NEM, there is a significant risk for DNSPs if electric vehicles diffuse slowly. It is unclear how existing electricity supply chain participants (i.e. generation, TNSPs, DNSPs) would survive were there to be an extended period of declining demand prior to an eventual eVehicle lead demand recovery.

4.6 Declining Demand and the Risk of a 'Death Spiral' Scenario

We know that a range of factors, including high electricity prices, changing consumer usage patterns and the rapid penetration of solar PV, demand for electricity in the NEM has been in decline since 2008 with the trend expected to continue at least until 2016. Future demand is difficult to predict with certainty due to changing usage patterns (residential, commercial & industrial), impending regulatory and tariff (i.e. pricing) reforms, and the impact of emerging technologies. We have already seen generation businesses retire plant due to an oversupply of generation capacity. As stated previously, DNSPs and TNSPs rely on economies of scale to spread costs across a large number of consumers. With unit prices (i.e. tariffs) derived by dividing the approved revenue cap by forecast demand, if demand continues to decline, prices will continue to increase. Increased prices provide further incentives for consumers to reduce consumption or seek alternative sources. This continuous cycle of demand erosion and price increases is referred to as the electricity demand 'death spiral' and has the potential to significantly impact DNSP business models which depend on achieving economies of scale (Severance, 2011; Simshauser & Nelson, 2012; Wood, Carter & Harrison, 2013, EEI, 2013). The 'death spiral' derives its name from the notion that at some point the business model will be rendered unsustainable (i.e. business model failure). The electricity death spiral is graphically depicted in Figure 4.6 and shows how actual demand in years 1 to 5 of the regulatory period slowly declines (i.e.

spirals downward). In response to declining demand the unit price in years 1 to 5 increases (i.e. spirals upward) as adjustments are made to ensure the total revenue recovered by DNSPs during the 5 years regulatory period reflects the revenue cap approved by the regulator at the commencement of the regulatory cycle. A declining demand trend is not sustainable for DNSPs who must spread their large fixed costs over a maximum number of customers. Extended periods of declining demand were never anticipated when regulatory frameworks were designed and implemented and as such, we now have the unusual situation where, unlike any traditional market based system, the declining demand is triggering increases in price. The increasing price is allowing electricity supply from new non-networked technologies more cost competitive in comparison.

Figure 4.6 - Electricity Demand 'Death Spiral'



Source: Developed by Newbury, 2014

a) *Re-thinking industry attractiveness: An investor perspective*

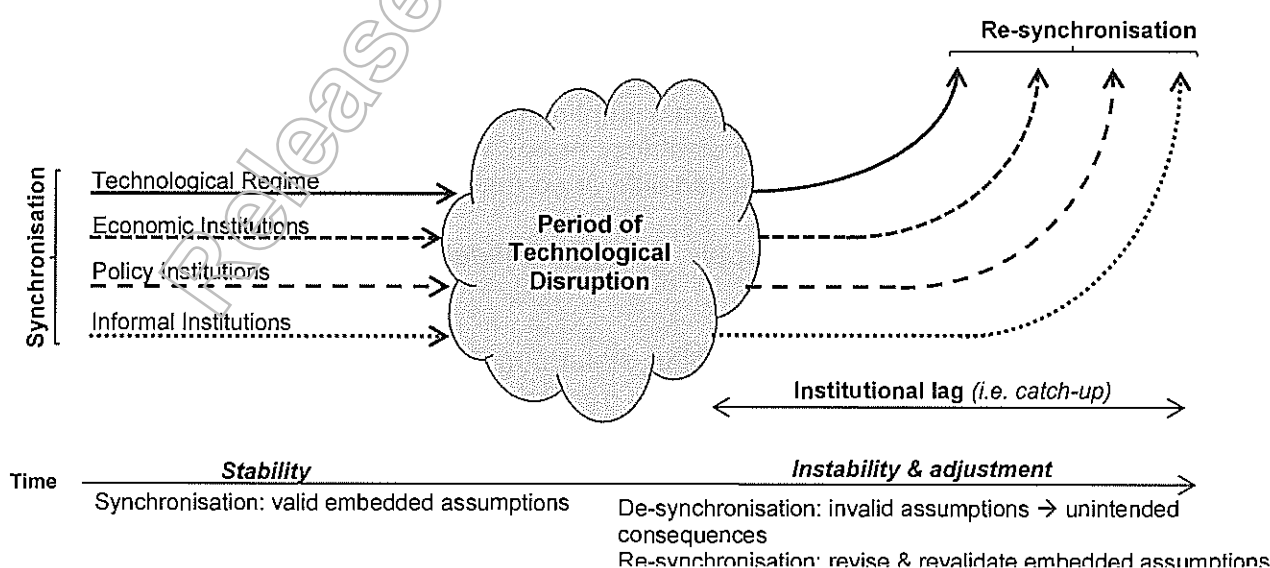
If we think about the Australian electricity industry in terms of Porter's (1990) Five Forces Model it is apparent that recent developments necessitate a re-evaluation of industry attractiveness. For example, prior to solar PV, DNSPs were essentially free of competition and consumers had little bargaining power on the basis that no cost comparable alternative existed to electricity sourced via the grid. In recent times this has changed and we are seeing DNSPs shift to a more customer centric model in recognition of the increasing

empowerment of consumers. Barriers to entry that had traditionally underpinned the status of DNSPs as natural monopolies are eroding with a flood of new entrants selling energy solutions based on new distributed renewable energy technologies. With the erosion of their natural monopoly status, DNSP's now face unsustainable business model risks. Finally, the availability of efficient and affordable battery technologies will provide a 'substitute' to the traditional model of electricity supply. The battery compensates for the one significant weakness in solar PV, namely intermittency. On that basis, by bundling batteries with solar PV, some consumers will have the ability to disconnect from the electricity grid. The business of electricity distribution now looks far less attractive than it did a decade ago.

5. Summary and Conclusions

The preceding sections have discussed the evolution of the sector in terms of the interactions between the actors, technologies, institutions and demand within the Australian electricity industry. If we now raise the level of abstraction to a less context specific focus and more theoretical viewpoint it is apparent that the research informs the 'sectoral systems of innovation' literature by highlighting the tensions that arise between technology and institutions during the transition to a new technological regime. Specifically, the research suggests that when technological fluctuations and disruptions occur within a sectoral system, institutions that have traditionally been stable for long periods, all of a sudden can be vulnerable. Disruptive technologies which challenge the existing technological paradigm or regime can have a destabilising effect on institutions within the sectoral system of innovation and contribute to a de-synchronisation between these institutions and the prevailing technological regime. Figure 5 provides a graphical depiction of how during extended periods of stability in the industry the economic, policy and informal institutions closely synchronise with the relevant technological regime and assumptions that are embedded within these institutions remain valid. However, a period of technological turbulence and disruption can permanently alter the underlying technological trajectory of the sector. The change in technological trajectory may cause instability in existing economic, policy and informal institutions which causes them to be out of synchronisation with the new technological regime. In such instances, a revalidation of assumptions embedded within those institutions may be required in order to effect a re-synchronisation. A period of *institutional lag* or *catch-up* can be said to occur until such time that sectoral institutions evolve and adjust (i.e. re-synchronise).

Figure 5 - Impacts of Technological Disruption on Sectoral Institutions



In this industry research context, disruptions to the traditional *technological regime* relate to advances in distributed renewable electricity generation and storage and other associated technologies, which are driving the transition from a linear electricity supply chain to an integrated customer centric electricity supply model. For the purposes of Figure 5, institutions have been categorised as being economic, policy or informal. *Economic institutions* refer to the economic regulatory framework for monopoly electricity networks, business models, competitive intensity, asset ownership models (public v private) and investor industry attractiveness. *Policy institutions* refer to state and federal government policies for energy and environment, whilst *informal institutions* are listed separately to recognise that firm/organisational level routines, norms and patterns of behaviour also influence the evolution of sectoral boundaries.

Whenever regulatory frameworks are established it is inevitable that judgements and assumptions are made about the nature of the industry, future demand, and consumer usage patterns over the longer term. Consequently, the success of regulatory frameworks in meeting these objectives is impacted by the judgements and assumptions that are embedded within these institutions. In this research industry context we have evidenced the destabilising effect that technological change on sectoral institutions and the way in which underlying assumptions within those institutional settings are challenged and in some cases rendered invalid. Some of the key areas where traditional assumptions now appear questionable include:

Assumption 1: Traditional technological regime to continue indefinitely

Underpinning the traditional electricity supply paradigm is the assumption that electricity networks represent the only technical and cost effective way to deliver electricity to customers, particularly when there has historically been no ability for consumers to store electrical power.

Assumption 2: Natural monopoly status of electricity networks to continue indefinitely

Based on the belief that no costs comparable technology could be developed to compete with electricity delivery via the traditional linear supply chain it was assumed that the natural monopoly status of electricity distribution and transmission network operators would continue indefinitely, free from competition.

Assumption 3: Continued Weak Bargaining Power of Consumers

Similar to assumption 1 and 2, the lack of a cost comparable alternative to the linear electricity supply model lead to the assumption that consumers would have no realistic alternatives than to source their electricity needs via the electricity network grid. This lack of choice meant consumers had little or no real bargaining power.

Assumption 4: Natural Monopoly Business Model Underpinned by Economies of Scale

Free from the prospect of competition, natural monopoly network utilities have based their business model on the ability to realise economies of scale that come with knowing that consumers have no viable alternatives to source their electricity needs.

Assumption 5: Investment decisions based on 40-year network asset life

Building upon the preceding assumptions, the economic regulator has approved significant network infrastructure investments on the basis that such investments will continue to operate and return revenues over a 40-year useful life. This assumes both the continuation of economies of scale based on continuing natural monopoly status and in that regard also assumes the traditional technological electricity delivery model will continue unchallenged by new technologies.

Assumption 6: Electricity demand in the NEM would always trend upwards

During the period 1895 to 2008, demand for electricity, delivered via a conventional linear electricity supply chain grew year upon year. The idea that electricity consumption could trend downward for an extended number of years was not contemplated by governments, regulatory bodies, industry participants or the investment community. Assumptions about continuing demand growth became embedded in the regulatory framework, investment decision-making and the business models of the DNSPs. The current decline in electricity demand within the National Electricity Market (NEM) since 2008 has had significant implications across the industry, for regulators, generators, TNSPs, DNSPs, retailers, owners and investors.

Assumption 7: Assumed rooftop solar PV would have limited consumer appeal

The failure to anticipate the possibility of a long-term decline in electricity demand in the NEM was matched by the failure to anticipate the demand for rooftop solar PV which has penetrated across Australia far more rapidly than expected. The now infamous AEMO prediction in 2011 that it would take until 2030 before solar PV would penetrate to 30% of Australian residences demonstrates the difficulties in predicting the rate of diffusion for new technologies (Queensland and South Australia are already approaching 30%).

Assumption 8: Electricity supply and demand must always be balanced in real-time due to lack of ability to store electricity

For over 100 years it has been the case that electricity supply and demand must be balanced in real time using sophisticated technologies that allow large electricity generation plants to increase or decrease the flow of electricity through the electricity network in real-time subject to the usage patterns of consumers. Breakthroughs in both small scale and grid scale electricity storage technologies is a 'game changing' technologies, which invalidates this old assumption and is expected to reshape electricity delivery and usage into the future.

Assumption 9: Continuing industry attractiveness to investors

The primary reason for the markets' willingness to provide capital to the utility sector is the confidence investors place in the regulatory model, and the assumption that utilities will be allowed (i.e. by regulators) to earn a fair return. Despite having a reputation as a safe and reliable investment for over 100 years, regulated businesses are vulnerable to risks related to business model changes, economic trends and regulatory policy changes. Disruptive technologies in the electricity industry have already created adverse impacts on revenues and investor returns and this is likely to impact the future cost and availability of capital for the electric utilities.

The inability of key industry stakeholders to anticipate the changing technological landscape and the impact of new technologies on demand, industry structure, business model sustainability, industry attractiveness, changing consumer usage patterns, investment decisions, regulatory frameworks, pricing and alike perhaps reflects upon Nelson and Winters (1982) idea that learning, behaviour and capabilities of agents are constrained and bounded by the technology, knowledge base and institutional context in which organisations act. The challenge to these underpinning assumptions has far reaching consequences for the future structure of the industry and demonstrates the rigidity of codified institutional rules in the face of fundamental changes to the existing technological paradigm.

In conclusion, advances in distributed renewable energy generation and storage technologies now provide consumers with choice during electricity sourcing decisions. This represents competition for DNSPs who have operated as natural monopolies for over 100 years. That competition is eroding the natural monopoly status of DNSPs and represents a threat to current DNSPs business models in the medium to longer term. In Schumpeterian terms, we are seeing the creative destruction of the traditional industry structure and linear electricity supply chain model and the emergence of a new integrated customer centric model combining elements of the old and new technological regime. Many of the existing institutions and assumptions that exist within this industry context, both formal and informal, are being challenged and are under pressure to evolve. In fact, Schumpeter (1950) himself, recognises the potential implications of such an event, stating “*there is certainly no point in trying to conserve obsolescent industries indefinitely; but there is a point in trying to avoid their coming down with a crash and in attempting to turn a rout into an orderly retreat*” (Schumpeter 1950, p. 90).

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'Creative Destruction' v 'Creative Accumulation': Organisational Transformation Challenges Confronting Electricity Distribution Monopolies

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Abstract— The paper presents selected findings for research into sectoral impacts of disruptive technological innovation in the Australian electricity industry, with emphasis on monopoly electricity distribution utilities. A qualitative case study approach was applied with data collected via semi-structured interviews with management representatives of 13 Australian electricity distribution network service providers. Interview data reveals contrasting views between private and public utility managers in terms of the perceived significance of challenges facing their organisations and the cultural preparedness to respond. Whilst representatives of private utilities expressed confidence in the cultural readiness of their organisations to meet the challenges ahead, managers representing public utilities identified organisational cultural constraints as one of the most significant impediments to the transformation of their businesses. Key concerns related to organisational culture included: resistance to change; lack of an innovative culture; risk aversion; poor cross functional collaboration; and lack of commercial focus and performance driven culture.

Index Terms—economies of scale; electricity supply industry; human resource management; monopoly; technological innovation.

1. INTRODUCTION

Electricity utilities in developed nations face an uncertain future as the industry undergoes a substantial transformation driven by a range of factors including the move to low-carbon energy systems, changing electricity usage patterns, government energy and environment policies and advances in renewable electricity generation and delivery technologies. The evolutionary economics literature describes how 'creative destruction' is an ongoing cycle of innovation and renewal and that disruptive technological change can lead to firms and industries being substantially reshaped or eliminated entirely [1]. We also know that patterns of innovation and market structure are essentially determined by the nature of the relevant technological regime which are not fixed but change over time [2], [3].

Periodically a disruptive event may occur that changes markets and industries and has a destabilising effect on established firms who may have difficulties when confronted by radical change [4]. Incumbent firms often find it difficult to respond to disruptive technological innovation for a variety

of reasons and this phenomenon is sometimes referred to as the 'incumbent's curse' [5], 'innovator's dilemma' [4], the 'Icarus paradox' [6] or 'core rigidity' [7]. We also know that whilst some incumbents decline and die, others are able to adapt and survive [8], [9]. This raises interesting research questions as to why some incumbents decline and die whilst others are able to evolve, adapt and prosper. With the value of electricity distribution networks generally measured in the billions and electricity being an essential service, the question of incumbent survival is of great significance, not only for the firms themselves, but also for governments, consumers, business, industry and society in general.

II. THEORETICAL FRAMEWORK

A. Sectoral Systems of Innovation (SSI):

The primary theoretical frame for this research is 'Sectoral System of Innovation (SSI), which is grounded in evolutionary economic theory and the innovation system approach [10]. Malerba [11] – [13] argues that innovation within a sector has relevant systemic features and undergoes processes of change and transformation through the coevolution of its core elements, namely: technology and knowledge, actors and networks, institutions and demand. On this basis, Malerba [12 p.65] defines a Sectoral Systems of Innovation (SSI) framework in the following terms:

"Sectoral systems of innovation have a knowledge base, technologies, inputs and a demand. They are composed of a set of agents carrying out market and non-market interactions for the creation, development and diffusion of new sectoral products. These agents are individuals and organisations at various levels of aggregation, with specific learning processes, competencies, organisational structure, beliefs, goals and behaviours. They interact through processes of communication, exchange, cooperation, competition and command. Their interaction is shaped by institutions. A sectoral system undergoes processes of change and transformation through the coevolution of its various elements."

Based on this definition, a sectoral system is composed of four main building blocks as depicted in Figure 1, including:

- i. *Knowledge & technology:* Any sector may be characterised by a specific knowledge base, technologies and inputs;

- ii. *Actors & networks:* A sector is composed of heterogeneous agents that are organisations or individuals. Agents are characterised by specific learning processes, competencies, beliefs, objectives, organisational structures, and behaviours, which interact through processes of communication, exchange, cooperation, competition, and command;
- iii. *Institutions:* Agents' cognition, actions, and interactions are shaped by institutions, which include norms, routines, common habits, established practices, rules, laws, standards etc. Institutions range from those that bind or impose enforcements to ones that are less binding and less formal.
- iv. *Demand:* is made up of individual consumers, firms and public agencies, each characterised by knowledge, learning processes, competencies and goals, and affected by social factors and institutions.

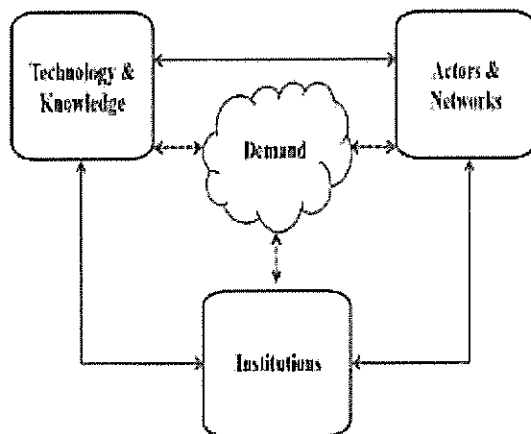


Fig. 1. Sectoral Systems of Innovation (SSI) Framework. Figure is adapted from reference [14].

The application of a SSI framework also allows managers to better understand both the forces that drive innovative activities in their sectors and how these forces change over time [15]. It is also a useful tool for analysing complex dynamics, because it takes into account multiple actors, policy-makers and institutions at different levels [16].

The sectoral systems of innovation framework derives its origins from three areas of research in economics and innovation studies [10], [15]. The first is the literature on *change and transformation in industries*, which includes studies on industry life cycles [17], [18] as well as broader analyses of the long-term evolution of industries as found in Schumpeter [1], and more recent work on the patterns of innovative activities and technological regimes [19], [20]. Schumpeter [21], [22] was interested in innovation either as a process of 'creative destruction' or as a process of 'creative accumulation' [23] and believed innovation was closely linked to the emergence, growth and decline of industries.

The second area of research in which the sectoral systems approach is grounded is *evolutionary economics theory*, which places a key emphasis on dynamics, innovation processes and economic transformation [2]. Evolutionary theory acknowledges that environment conditions and sectoral context affect agents' cognition and behavior [20], [25], [26]. Evolutionary theory stresses major differences in opportunity conditions related to science and technologies, the knowledge base underpinning innovative activities, and also the institutional context. Thus the learning, behaviour and capabilities of agents are constrained and bounded by the technology, knowledge base and institutional context in which firms act. Heterogeneous firms facing similar technologies and knowledge bases, undertaking similar production activities and embedded in the same institutional setting, share some common behavioural and organisational traits and develop a similar range of learning patterns, behaviour and organisational forms [2], [15].

The third theoretical origin of the sectoral system of innovation framework is the *innovation systems* literature, in which relationships and networks are key elements of the innovative and production processes [27]. The 'innovation system' approach considers innovation as an interactive process among a wide variety of actors. It stresses the point that firms do not innovate in isolation; innovation is seen as a collective process. In the innovative process firms interact with other firms as well as with non-firm organisations and their actions are shaped by institutions [27], [28].

III. RESEARCH METHODS

The case method is the most appropriate for studies that ask 'how' and 'why' research questions [29] and as such was adopted in this instance. Data was collected primarily via semi-structured interviews with management representatives of 13 Australian electricity distribution network service providers (DNSPs). Interviewees were asked their opinions and perceptions across a range of topics including: the nature and significance of challenges facing Australian DNSPs; the readiness of their organisation to meet the challenges; the extent of any strategic repositioning undertaken or contemplated by their organisation and the role of innovation in that context; current and anticipated impacts of emerging technologies; differences between public and private ownership; business model considerations, the threat of an electricity demand 'death spiral' and finally, the nature and extent of any constraints which they felt may hamper or impede their organisation in meeting the challenges they face.

Archival documents from various sources were also an important element of the data collection and also helped to triangulate interview data. Data analysis was undertaken to sift through all of the relevant data to develop an understanding of how the core components of the sectoral systems framework interact and influence firm activities. This was done through a series of steps and involved preliminary analysis, an initial phase of coding to identify broad themes and a second phase to explore emergent themes more deeply. The analysis process concluded with 'within-case' comparisons, with emphasis on sector v firm, firm v firm, and sought to contrast findings for public v private utilities.

IV. FINDINGS AND DISCUSSION

A. Recognising the Inevitable Transformation

In 2012 CSIRO convened the Future Grid Forum which assembled more than 120 representatives of the Australian electricity industry, government and community to undertake an extensive whole-of-system analysis to explore what Australia's electricity system might look like in 2050 and to understand the issues and options that might arise along the way. The importance for this initiative is reflected in comments by Mr Paul Graham, Chief Economist of the CSIRO Energy Flagship [31]:

"The electricity system is... now facing complex and unprecedented challenges. These challenges have the power to affect all links in the electricity supply chain and to encourage new market structures, actors, and business models to emerge. The future is likely to look vastly different from today. Australia's electricity landscape will change significantly in the decades to 2050, and the greatest changes are likely to come from:

- 'mega shifts' brought on by the advent of low-cost electricity storage, sustained low demand for centrally-supplied electricity, and the need for significant greenhouse gas abatement.
- consumer choice as an outcome of potential new business models, a greater degree of cost-reflectivity in pricing, and greater consumer engagement.

The Future Grid Forum developed four scenarios as a means to help them explore and debate the potential challenges that may confront the Australian electricity industry in the years ahead. The scenarios do not represent a consensus view of the future but a range of possibilities based on assumptions about how certain technologies might advance and how those technologies might be viewed and embraced by consumers.

B. Perceived Significance of the Industry Evolution

Early in each interview, interviewees were asked their views on the nature and significance of the current industry transformation, particularly in comparison to the rate at which change would normally occur. There was broad agreement that DNSPs were facing a period of significant change and transformation and this was driving major strategic and operational shifts across their businesses. The following comment by ENERGEX CEO, Mr Terry Effeney captures the essence of how DNSPs view the current sectoral evolution.

"The industry is at such a crossroads... in the next 20 years we will see quite a large transformation in the way the energy model evolves... This journey is going to be an enormous challenge."

Other typical responses of interviewees include:

"We are in a period of unprecedented change".

"The rate of change is quite a bit more than before".

"In the next ten years we're going to have such a transformation".

"This is completely unprecedented. We've likened it to a wave".

"We're right at the front end of what I suggest is one of the most significant periods of change this industry has faced as a whole".

"Even though we are used to change, the rate of change is somewhat different from what we're used to in the past".

"There's always changes happening but not as much as what we're now seeing".

"There's a bit of a tidal wave about to hit us and a lot of that is because of the pressures from the external environment."

In addition to interview data, media comments [30] by selected Chief Executives reinforce the significance of the challenge facing DNSPs:

"We will morph as we have over the last 100 years. Don't underestimate the businesses' ability to change when we see that has to occur. We are slow out of the blocks though." (Terry Effeney, CEO ENERGEX)

"If distributors don't respond they run the risk of being blindsided and becoming increasingly irrelevant to consumers." (Paul Italiano, CEO Western Power)

"Under pressure from weak demand, distributors can no longer rely on building new poles and wires to cover more houses" (Tim Rourke, CEO Cnipower & Powercor)

Whilst DNSPs generally recognise the fundamental changes in the industry and the need for their organisations to adjust accordingly, some interviewees from privately owned Victorian DNSPs felt that Victorian DNSPs were more accustomed to change than their publically owned peers based on their experiences since privatisation:

"In Victoria the level of change has been fairly consistent over the period of the last 10 or 20 years."

"The rate of change, we still call it evolutionary, we don't believe it's revolutionary. So to us the change is evolutionary. It certainly is greater than it has been in the past ten years, no doubt about that. But you still have your core assets...that hasn't changed. So we call that evolution rather than revolution."

Victorian based DNSPs have been subject to periods of great upheaval starting with the disaggregation, privatisation and sale of electricity assets in the late 1990s. Since the initial privatisation many DNSPs have changed owners a number of times who each initiated processes of reorganisation, restructuring and strategic repositioning. In addition, Victoria is the only state to have completed a rollout of smart meters and introduced time-of-use (TOU) tariffs. In such circumstances, it is possible to argue that Victorian DNSPs are considerably more prepared for change than their government owned peers.

C. Organisational Culture Considerations

One of the most revealing insights to arise out of discussions with representatives of the natural monopoly electricity distribution network service providers (DNSPs) was the extent to which these interviewed nominated internal cultural barriers as the most significant impediment to the transformation of their businesses. Perhaps more intriguing was the considerable difference between the views expressed by interviewees of publicly and privately owned DNSPs, particularly in terms of their assessment of whether their organisations are culturally well positioned for the transformation journey that lay ahead. The feedback obtained during interviews was coded and classified into several categories including: resistance to change and new technologies; risk tolerance; innovation culture and openness to new ideas; cross functional collaboration; commercial focus and performance culture.

Whilst representatives of privately owned DNSPs did raise some areas of concern, they were generally confident in the cultural readiness of their organisations to overcome these obstacles. Explaining this confidence, one interviewee suggested that privately owned DNSPs had already experienced periods of significant change and transition since their privatisation. It was argued that enduring previous periods of change have left privately owned DNSPs culturally well prepared to navigate the evolving industry landscape. Whilst recognizing the need for change, none of the interviewees representing privately owned DNSPs exhibited any genuine concerns about cultural readiness for change.

In contrast to their privately owned peers, the views and comments expressed by managers representing publicly owned DNSPs identify organisational culture related issues as a significant challenge for organisations seeking to adjust to the evolving industry landscape. There is recognition that new rigorous regulatory oversight along with pressure from consumers, owners, governments and media concerning recent electricity price increases, is driving rapid change in the sector. At the same time, they are aware that new technologies like solar PV and battery storage provide consumers with choices that until recently had not existed. In this context, DNSPs now operate in a competitive market for the first time in the 100+ years. As one interviewee remarked, "...you've now got other market entrants coming in and eating your lunch."

There was a general recognition across those interviewed that compared to privately owned DNSPs, the publically owned DNSPs were likely to be assessed as less efficient and less productive by benchmarking proposed by the Australian Energy Regulator (AER). All publically owned DNSPs in the study acknowledged the need to fundamentally transform their businesses and the way they operate. However, many saw cultural constraints as one of the biggest obstacles to any organisational transformation. The key concerns around organisational culture for public utilities related to: resistance to change; lack of an innovative culture; aversion to risk; poor cross-functional collaboration; lack of commercial focus and performance driven culture. A sample of indicative comments which reflect the broadly expressed views are as follows:

a) Organisational culture:

"All the distributors have got a real transitional crossroad we are about to face...but we won't succeed unless we have the cultural change."

"If we ask, 'what are the things that really you've got to get right?' I think, first of all it's the culture."

"The technical aspects are a challenge but they are not insurmountable... getting the company changing, informed and moving all in the same direction is a challenge."

b) Resistance to change:

"We have to fundamentally change our business model and fundamentally change the resistant culture."

"We struggle with change, definitely. When it comes to change it's got to be acknowledged as a challenge that no one wants to undertake. There is a fair bit of resistance."

"I think our business is a slow dying dinosaur... we're asking the dinosaur now to become a whippet."

c) Innovation culture:

"We are definitely a dinosaur type organisation and we are firmly entrenched in past history. Building an innovative culture in that environment is no easy task."

"In relation to experimentation... they want to see a guaranteed dollar return almost from day one and where innovation is concerned that's not reality. There's a strategic leap of faith that you've got to take."

d) Risk aversion:

"Tolerance of Risk? "No. Absolutely not."

"The status quo in this business was conservative... everything conservative... over reinforces, overbuild, and overspend..."

"The bigger risk for us at the moment is... that mindset that says 'doing what we've always done is safe'."

e) Cross-functional collaboration:

"While we call ourselves one business, if I am honest, I would say there are still factions. I actually think we probably collaborate better with outsiders than what we do internally."

"We have regional and skill set related silos."

"Say the optimal process involved one division taking a hit [i.e. cost] and two divisions win [i.e. benefit]... There would be a lot of friction there. Not everyone's prepared to take a hit. There's a lot of one-upmanship."

f) Commercial focus & performance culture:

"It's a significant change to bring more of a commercial mindset into decision making at every level. I think we have been tolerant of sloppy practices."

"The utilities in Victoria have been privatised for quite a long time and because of that I would say they're probably a lot more efficient in certain areas than we are."

V. CONCLUSIONS

Whilst technological discontinuities and disruptive innovations can create new market opportunities, they can also simultaneously damage, destroy or transform demand in many existing product markets [8]. This can result in capabilities mismatch and business model conflicts that create serious challenges in formulating viable strategies to deal with disruptive technological innovations [4]. It is widely acknowledged that incumbent firms find it difficult to respond to disruptive technological innovation for a variety of reasons [17], [32], [33]. This would appear to be the case in this research context also.

The research has explored the Australian electricity industry using a case study based method and sectoral system of innovation (SSI) lens. One of the key findings to emerge from this comprehensive study is the extent to which management representatives of public utilities have identified a suite of organisational cultural constraints as being one of the most significant impediments to the transformation of their businesses. These concerns can be further categorised as relating to: resistance to change; lack of an innovative culture; risk aversion; poor cross functional collaboration; and a lack of commercial focus and performance driven culture. In contrast to their public sector peers, representatives of the privately owned distribution utilities expressed a level of optimism and confidence in the cultural readiness of their organisations to adapt and prosper in the face of considerable disruption and change within the industry.

ACKNOWLEDGMENT

The authors gratefully acknowledge the contributions of the organisations and individuals who participated in the study and gave their considered input, including: ENERGEX, Ergon Energy, Ausgrid, Endeavour Energy, Essential Energy, Aurora Energy, Western Power, CitiPower Powercor, SP Ausnet, Jemena, United Energy and SA Power Networks, Energy Networks Association (ENA), Australian Energy Regulator (AER), Energy User Association of Australia (EUAA) and CSIRO.

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Subject: Draft Release

From: simmo@etu.org.au

To: media@etu.org.au; mangocube6@yahoo.co.uk; stuart@etu.org.au

Date: Thursday, 29 October 2015, 10:12:57 am AEST

All,

I haven't checked it, haven't proofed it, can you all have a look at the line and come back to me and I'll get Dan to proof and release when everyone's across it

Regards,

Peter Simpson

State Secretary

NR

simmo@etu.org.au



Draft AER Release.docx

12.6kB

Released under RTI Act - TMR

Today's announcement from the Australian Energy Regulator to limit revenue to Government Owned Corporations ENERGEX and Ergon Energy is obviously good news for electricity consumers but concerning for some employees within the Queensland Electricity Industry.

Whilst the revenue cuts are not as severe as were first forecast, they come off the back of up to 43% increases that occurred during the Newman regimes time in office, those rises in revenue need to be taken in that context in relation to today's announcement.

"All Award/EBA staff have locked in commitments to no forced redundancies and no forced relocations in their Union Collective Agreement (EBA) In other words, workers covered by the Union agreement cannot be forcibly made redundant" Peter Simpson ETU State Secretary said today.

The Union is currently in consultation with the Government and other stakeholders over the proposed merger of Government Owned Corporations, in line with the policies Labor took to the 2015 election.

"We believe that there are massive opportunities to make significant savings in the managerial ranks, mainly due to the extensive empire building that has continued, unabated over the past several years in all GOC's" he said.

"The no forced redundancy commitment is only applicable to Award/EBA staff, not the bloated senior ranks of current GOC's. We look forward to working with Government to identify real savings through the merger process and every EBA employee can sleep tonight safe in the knowledge that their jobs and conditions are locked in stone, thanks to a great EBA campaign earlier this year" Simpson said.

For comment:

Peter Simpson State Secretary NR

Stuart Traill ESI Organiser NR

Subject: Re: Relationship

From: simmo@etu.org.au

To: mangocube6@yahoo.co.uk

Date: Thursday, 4 June 2015, 8:32:42 pm AEST

Cheers, yes a bloody concern though, Treasury are running amok, I'd imagine your dept would have no idea of some of it

Regards,

Peter Simpson
State Secretary
Electrical Trades Union
Queensland
M. NR
F. (07) 3844 9851
simmo@etu.org.au
www.etu.org.au

Join Online
www.etuyes.com
Or call
1800ETUYES

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On 4 Jun 2015, at 8:31 pm, Mark Bailey <mangocube6@yahoo.co.uk> wrote:

Just caught up with this. Good to hear comrade. M

Sent from my iPhone

On 4 Jun 2015, at 7:31 am, Peter Simpson (ETU) <simmo@etu.org.au> wrote:

Mate, Evan rang last night and got Imogen to call me, we are getting a briefing from Treasury next Tuesday, so that's a start I guess

Cheers

Regards,

Peter Simpson
State Secretary
Electrical Trades Union
Queensland
M. NR
F. (07) 3844 9851
simmo@etu.org.au

www.etu.org.au

Join Online
www.etuyes.com
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1800ETUYES

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On 4 Jun 2015, at 12:04 am, Mark Bailey <mangocube6@yahoo.co.uk> wrote:

Hi Simmo,

Just had a chat as discussed with you earlier in the day post disallowance debate which I was co-ordinating gov't's response to.

Will call you in morning. Treasurer happy to meet soon to talk. Will get it going in the morning.

Mark

Sent from my iPhone

On 3 Jun 2015, at 9:58 am, Peter Simpson (ETU) <simmo@etu.org.au> wrote:

Comrades,

I've been stewing for a few weeks on a few issues: -

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.

Not Relevant

The Energy GOC merger;

Not Relevant

As requested by AP following the election, the ETU and others have taken a backwards step, in relation to allowing the new Government space to fill key positions etc, it would appear that we are the only ones that did that by the way, with others having weekly meetings and, on the face of it, being listened to.

Now that most of these positions have been filled, we were hopeful that we could move forward and hopefully get some answers/have some input into the direction this Government takes, that hope is not being realised however. A classic example of us being kept out of the loop are the many amalgamation discussions that are taking place, through Treasury, that we are not involved in, nor are we fully aware of the scope of these discussions. Pretty poor form when you went to the election with OUR policy and OUR costings on a policy you're now working through to our exclusion!

Symptomatic of the problems, I was scheduled to meet with Evan this morning at 9am, it's now nearly 10am and I'm yet to see or hear from him, likewise I sought a meeting with the Deputy Premier during this week for a quick coffee, still waiting on that one as well.

As you would know, the ETU and Labor have not always had the greatest of relationships, but now that we've collectively won the unwinnable election together I held out some hope of a more respectful relationship, I'm not seeing that Comrades and neither are quite a few others.

Where to from here?

Simmo

Regards,

Peter Simpson

State Secretary

NR

simmo@etu.org.au

Subject: Fwd: An Angry Email from a Fucking Angry Man

From: mangocube6@yahoo.co.uk

To: denise.spinks [redacted] NR

Date: Tuesday, 30 June 2015, 6:43:21 pm AEST

Latest

Sent from my iPhone

Begin forwarded message:

From: "Peter Simpson (ETU)" <simmo@etu.org.au>
Date: 30 June 2015 6:03:27 pm AEST
To: "mangocube6@yahoo.co.uk" <mangocube6@yahoo.co.uk>
Subject: An Angry Email from a Fucking Angry Man

Comrade,

You'll get this tonight, after a long day doing a role that should have 3 Ministers (or 2 and a few Parl Secs) doing it and no doubt throw your hands in the air in exasperation.

That said, fuck it, I've spent the past 5 months or so talking up this Government and our star recruit, you, telling all and sundry that asked how you were going as our new Minister, that all was ticketyboo. My pride, given the amount of effort and strings I had to pull to get you there have all kept me in defence mode, well not tonight!

That blow up I had with all of you a few weeks ago was systemic of a much broader problem. Straight after the election I joked with a few of our guys about how long it would take the new crew to convince themselves that they got themselves into Parly and into the Ministry without any assistance from the Union movement or in our case the N4S Campaign. Now we're starting to see lip service in a range of areas and disappointingly now yours. A classic example being the attached. You were at the meeting, do you believe that even one sentence of the attached addresses anything we asked for at that meeting?

I've copped it from my Organisers and our Ergon Delegates today. Why are we having to take industrial action against a Government we put there? That's the question I've copped all fucking day. Why are we now heading to protected action in the Hydros another from our boys on a hook up today, a fair question I now have had to concede to them this afternoon. Tomorrow I have to pull up more Ergon depots over this fucking Select Solutions bullshit that should never have happened in the first place if a few well-placed feet were put on a few very deserving throats when this shit was first raised. Workers not getting raincoats for fucks sake, working for a GOVERNMENT Owned Corporation, not being paid correctly etc etc etc, a fucking joke. Ergon are acting this way because from their point of view nothing has changed, they will continue this sort of carry on until it does, leaving us to react accordingly.

As you'd recall after you got the gig, I asked for one meeting, early one morning, where I gave you our view of the world on the merger, from there we left you alone. When Denise came on board I thought great, finally we'll have someone to deal with that can help us sort this shitfight out without having to annoy the piss out of you, well that's been a spectacular failure, she doesn't return calls half the time and my blokes reckon she has done sweet fuck all for us since taking on the role, from what I've seen my end I concur.

Maybe we were spoilt under Beattie, blokes like McGrady who'd pick the phone up to the respective CEO, in front of the Official and blow his balls off over issues such as we have had with Select Solutions, blokes like Zackeresen, McCallum etc who were active participants in ensuring that the GOC's in their charge kept to the Labor side of the fence, maybe we just had it too easy and the current situation is what the new norm will be?

Your comment today about *"not wanting to run Ergon"* has been grating on me all day, I've grabbed all my blokes in for a yarn this afternoon to see if it's just me or are we being played for chumps, the consensus is we're being played for chumps. Our members are pissed, my Officials are pissed and I can assure you I'm fucking pissed off.

Not a happy camper Mark, my text this arvo where I said no rush my end was pretty sarcastic, unfortunately that doesn't come through in a text.

Anyway, my vent for the day, we'll pull up another tomorrow, no doubt Ergon will file for Orders, I'm at the stage of not really caring about that to be honest and pulling a State-

Wide stoppage over the disgrace that is Select Solutions and this Governments' reluctance to tackle an out of control, Tory ridden cesspool that is Ergon Energy and their anti-worker mates!

No more correspondence from us, we will be in the trenches from here on in, doing what we do best.

Simmo

Regards,

Peter Simpson

State Secretary

NR

simmo@etu.org.au



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Treasurer
Minister for Employment and Industrial Relations
Minister for Aboriginal and Torres Strait Islander Partnerships

In your reply please quote: 519306/19, 2912018

26 JUN 2015

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100 George St Brisbane
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Telephone 07 3719 7200
Email treasurer@ministerial.qld.gov.au
Website www.treasury.qld.gov.au

ABN 99 856 020 239

Mr Peter Simpson
State Secretary
Electrical Trades Union
PO Box 3520
SOUTH BRISBANE QLD 4101

Dear Mr Simpson *PETER*

I refer to our meeting on 9 June 2015 regarding the proposed Energy Government Owned Corporations (GOCs) mergers attended by representatives from the Electrical Trades Union and the Australian Metal Workers Union.

The Palaszczuk Government is in the process of implementing its proposed Energy GOCs mergers as part of its election commitment to retain Queensland's income generating assets in state hands.

The Government will assess a range of options to maximise efficiencies and get better returns from state energy assets.

To inform these options, legal advisors have been engaged to provide competition and structuring advice and another group of legal advisors will provide industrial relations advice.

However, the Government is committed to ongoing discussions with the Electrical Trades Union regarding the merger options. Any changes the Energy GOCs will be based on the principle of voluntary separation.

Consultation will also occur undertaken with the Energy GOCs and the Australian Competition and Consumer Commission.

The Government has also established a high level interdepartmental Steering Committee and project team to undertake analysis and provide advice to Government.

If you require further information or assistance, please contact Ms Imogen Beynon, Senior Advisor - Industrial Relations, on (07) 3719 7200.

I trust this information is of assistance.

Yours sincerely

HON. CURTIS PITT MP
Treasurer
Minister for Employment and Industrial Relations
Minister for Aboriginal and Torres Strait Islander Partnerships

Subject: Re: An Angry Email from a Fucking Angry Man

From: mangocube6@yahoo.co.uk

To: simmo@etu.org.au

Date: Tuesday, 30 June 2015, 8:04:29 pm AEST

I know. All good comrade. Talk soon. M

Sent from my iPhone

On 30 Jun 2015, at 7:36 pm, Peter Simpson (ETU) <simmo@etu.org.au> wrote:

Not a discussion to have after a few ales

Cheers

From: Mark Bailey [<mailto:mangocube6@yahoo.co.uk>]

Sent: Tuesday, 30 June 2015 7:33 PM

To: Peter Simpson (ETU)

Subject: Re: An Angry Email from a Fucking Angry Man

Fair enough. Talk tmrw. M

Sent from my iPhone

On 30 Jun 2015, at 7:27 pm, Peter Simpson (ETU) <simmo@etu.org.au> wrote:

Yeah not tonight Comrade, I'll take a few deep breaths and ring you tomorrow

Simmo

From: Mark Bailey [<mailto:mangocube6@yahoo.co.uk>]

Sent: Tuesday, 30 June 2015 7:20 PM

To: Peter Simpson (ETU)

Subject: Re: An Angry Email from a Fucking Angry Man

Right. Well, not much point not talking comrade. We're working it but there has to be a better way to do that. Call me when you can. M

Sent from my iPhone

On 30 Jun 2015, at 6:03 pm, Peter Simpson (ETU) <simmo@etu.org.au> wrote:

Comrade,

You'll get this tonight, after a long day doing a role that should have 3 Ministers (or 2 and a few Parl Secs) doing it and no doubt throw your hands in the air in exasperation.

That said, fuck it, I've spent the past 5 months or so talking up this Government and our star recruit, you, telling all and sundry that asked how you were going as our new Minister, that all was ticketyboo. My pride, given the amount of effort and strings I had to pull to get you there have all kept me in defence mode, well not tonight!

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Simmo

Regards,

Peter Simpson

State Secretary

NR

simmo@etu.org.au

<JAG-#2919559-v1-
OFSWQ_MIN_LETTER_Proposed_Energy_Government_Owned_Corpor....pdf>

Subject: RE: Mergers policy consultation group

From: simmo@etu.org.au

To: Mary-Anne.Curtis@treasury.qld.gov.au

Cc: jfrazer@qtc.com.au; stuart@etu.org.au; jason@etu.org.au; rohan.webb@amwu.asn.au; akerslake@professionalsaustralia.org.au; Neil.Henderson@theservicesunion.com.au

Date: Thursday, 17 September 2015, 10:43:51 am AEST

Mary-Anne,

The ETU will be withdrawing from the consultation process and urging the other Union to do so as well. As a result, we will obviously not be attending tomorrow.

Cheers

Peter

From: Mary-Anne Curtis [mailto:Mary-Anne.Curtis@treasury.qld.gov.au]
Sent: Wednesday, 16 September 2015 3:46 PM
To: Peter Simpson (ETU) <simmo@etu.org.au>
Cc: John Frazer <jfrazer@qtc.com.au>; Stuart Trail <stuart@etu.org.au>; Jason Young (ETU) <jason@etu.org.au>
Subject: RE: Mergers policy consultation group

Thanks Peter

Mary-Anne Curtis

Deputy Under Treasurer

Queensland Treasury

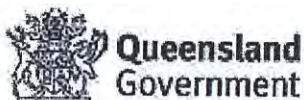
Level 9, 100 George Street

Phone: 3035 1856 (dial full number)

Mobile:

Email: mary-anne.curtis@treasury.qld.gov.au

Web: www.treasury.qld.gov.au



From: Peter Simpson (ETU) [<mailto:simmo@etu.org.au>]
Sent: Wednesday, 16 September 2015 12:29 PM
To: Mary-Anne Curtis
Cc: John Frazer; Stuart Traill; Jason Young (ETU)
Subject: RE: Mergers policy consultation group

Mary-Anne,

It will be Stuart Traill and Jason Young

Stuart@etu.org.au jason@etu.org.au

I'd like to also attend on an ad hoc basis, it would be my intention to be there this Friday as well

Peter

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Sent: Wednesday, 16 September 2015 12:16 PM
To: Peter Simpson (ETU) <simmo@etu.org.au>
Cc: John Frazer <jfrazer@qtc.com.au>
Subject: Mergers policy consultation group

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Mary-Anne Curtis

Deputy Under Treasurer

Queensland Treasury

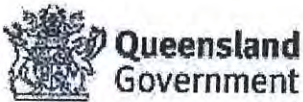
Level 9, 100 George Street

Phone: 3035 1856 (dial full number)

Mobile: NR

Email: mary-anne.curtis@treasury.qld.gov.au

Web: www.treasury.qld.gov.au



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To: denise.spinks [redacted] NR

Date: Thursday, 17 September 2015, 4:36:45 pm AEST

Let's discuss. Just saw this. M

Sent from my iPhone

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From: mangocube6@yahoo.co.uk

To: denise.spinks NR

Date: Thursday, 17 September 2015, 4:40:43 pm AEST

Cancel that. Solved before we got near it! M

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Subject: FW: Questions

From: stuart@etu.org.au

To: mangocube6@yahoo.co.uk

Cc: denise.spinks [redacted] NR

Date: Wednesday, 15 June 2016, 8:34:16 am AEST

Mark,

Can we catch up for a bit prior to catching up tomorrow evening to discuss some of our members concerns regarding the merger?

Cheers,

Stuey.

From: Stuart Traill

Sent: Wednesday, 15 June 2016 8:32 AM

To: TAYLOR John (ENERGEX) (johntaylor@energex.com.au); John Taylor; Chris McGaw (cmcgaw@etu.org.au)

Cc: Terry Bradley

Subject: Questions

Comrade,

Here are the questions posed by our members.

Who is on the Merger Steering Committee on behalf of QTC and were any of them involved in the LNPs privatisation process?

What is Boston Consulting actually doing?

How many people are working on this project from Boston Consulting?

Where is the proposed cost savings coming from?

Has any job modelling been done?

How many jobs have been identified as surplus?

What is the breakdown across classifications?

Where are the proposed surplus jobs?

What is the growth strategy for Energy services?

What is the proposed Executive Management structure?

What is the proposed timelines and recruitment process for the Executive team?

Will the recruitment be limited to internal employees?

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Stuart Trill

Supply Industry Organiser

Electrical Trades Union

Queensland

M. NR

F. (07) 40513502

stuart@etu.org.au

www.etu.org.au



Join Online

www.etuyes.com

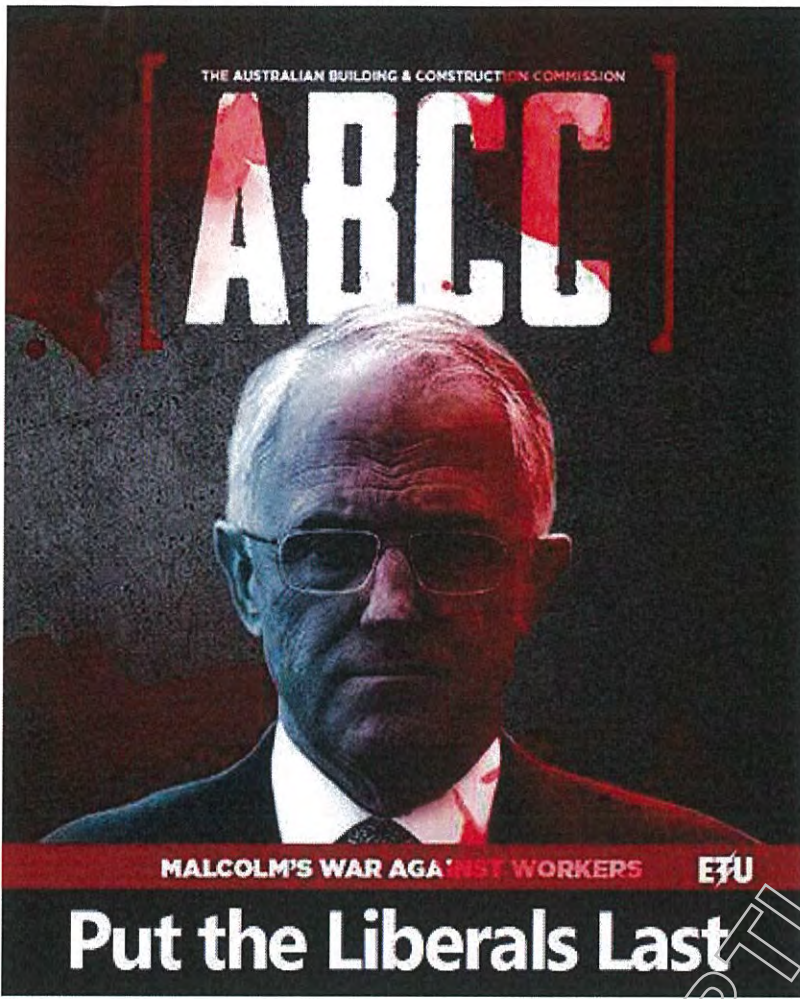
Or call

1800ETUYES



www.not4sale.org.au

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Subject: RE: Questions

From: stuart@etu.org.au

To: mangocube6@yahoo.co.uk

Cc: denise.spinks [redacted] NR

Date: Wednesday, 15 June 2016, 1:27:03 pm AEST

What time suits you best mate?

From: Mark Bailey [mailto:mangocube6@yahoo.co.uk]

Sent: Wednesday, 15 June 2016 12:06 PM

To: Stuart Traill

Cc: denise.spinks [redacted] NR

Subject: Re: Questions

For sure Stewie. No worries. M

Sent from my iPhone

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