

Synopsis of the First Meeting

The first meeting of the Review stakeholder Advisory Committee was held on 8 September 2008. The purpose of the meeting was to discuss the scope and potential range of issues relevant to the Review.

The Review is to assess the existing energy market frameworks to determine if they require amendment to accommodate the introduction of the CPRS and expanded RET.

The issues were grouped under three broad themes for the purpose of discussion: (i) operation of wholesale and retail markets; (ii) networks; and (iii) system operation/reliability.

General comments

- The Committee noted that the CPRS and expanded RET will affect a large number of aspects of electricity and gas markets.
- Some members considered that whilst energy markets have worked well to date, they will be tested in the new regime.
- Many members indicated that there are likely to be different issues in the short term versus the longer term as technological responses evolve under CPRS.
- Some members stressed the importance of carefully considering the costs of change to the current arrangements, as well as the benefits.

Wholesale and retail markets

- Members noted that CPRS was likely to encourage market participants to move to less greenhouse intense fuels for electricity (coal → gas). Members discussed what this might mean and whether there may be a change from the traditional types of generation being dispatched.
- It was noted that if there are changes to the way generators are dispatched – will plants be able to operate more flexibly (turn on and off more frequently).
- A few members noted that there is likely to be increases in natural gas use. This may result in greater interactions between the electricity and gas markets.
- Many members noted that energy costs and electricity prices are expected to rise. Electricity prices in particular will fluctuate in the transition period to CPRS. It was noted that any volatility in prices increases the range of risks that market participants need to manage (e.g. credit, illiquidity in financial markets and movement towards vertically integrated businesses).
- Some members noted that demand management should play a greater role, particularly as the supply and demand balance for energy supply tightens. It was noted that incentives should support, and not hinder, this.
- The Committee noted that the potential increases in prices are expected to impact on retailer and consumers more generally. Determining the best mechanisms to address the challenges faced by retailers and consumers is important.

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Networks

- Many members noted that a large range of new investments entering the market is expected, once the climate change policies are more clearly defined. Members noted that this would have significant implications for networks, and that this had not had an appropriate level of visibility in the debate to date. Members discussed the following key points with respect to this issue:
 - the need for better coordination of infrastructure requirements and network connections;
 - the application of the existing regulatory test – does the criteria appropriately consider the full range of issues and result in the appropriate outcomes;
 - how best to ensure that network assets are not stranded to accommodate new generation investments;
 - are the current access regimes to networks encouraging efficient investments;
 - the allocation of “who pays” with respect to increased renewable energy generation entering the market, particularly in remote locations; and
 - are the existing planning regimes appropriate to address the increases and difference of levels of congestion across the network in the new regime.

System Operation and Reliability

- Members noted that system operation and reliability are a key critical to maintain in the new regime. It was noted that due to the changes in the mix and technology of generation, reliability of both the electricity and gas systems will need to be better managed.
- The Committee noted the range of mechanisms used by market operators to ensure reliability (e.g. directional powers/ reserve trader). A key question was posed - will these be appropriate and will they continue to be effective.
- Members noted that tight supply is predicted – firstly due to demand increased, secondly due to uncertainty over the climate change policy and delay of investments. Many members questioned if the shortfalls be able to met and what will the differences across jurisdictions?.

Synopsis of the Second Meeting

The second meeting of the Advisory Committee was held on 6 November 2008. The purpose of the meeting was to review the range of issues outlined in the Scoping Paper and assess their materiality for progression to the next stage of the Review. Discussions were also held on the new information available that may intersect with the Review, and the process of how the AEMC will priorities the broad range of issues.

New Information

Members noted that there is a range of new information which presents very different but credible information and scenarios for consideration of the issues for the Review. The information discussed that particularly intersected with the Review includes:

- Treasury modelling of economy wide impacts of the CPRS;
- Garnaut Final Report;
- 2008 Statement of Opportunities (SOO); and
- Global credit market impacts.

Prioritising the Issues

The Committee discussed and endorsed the AEMC's proposed criteria for prioritising the issues, based on criteria including:

- the overarching objectives of the relevant markets (NEM, Gas, WA and NT);
- is the issue or its consequences attributable to the CPRS or expanded RET;.
- is there a likelihood that the issue will materialise;
- do changes to energy market frameworks have the potential to make a difference;
- if the issue materialises, will it impose significant economic costs; and
- can the issue be adequately managed under existing governance processes.

Range of Issues – Priorities for the Review

Issue 1 - Convergence between electricity and gas markets

Majority of members considered that whilst there was likely to be an increase in convergence of the two markets over time, it was viewed that the existing frameworks are capable of adapting. One member did note however that the issue required consideration particularly with respect to fuel switching and power system and gas security.

Issue 2 – Generation capacity in the short term

Many members considered that this issue was mainly attributable to policy uncertainty on CPRS. Members agreed, however, that the issue warranted further analysis to determine if any consequent changes were needed to the existing frameworks. A member noted that the issue was created externally and was transitional, and should not therefore drive significant changes to how the market operated.

Issue 3 – Investing to meet reliability

Members discussed the merits of the current regime and mechanisms versus fundamental reform. It was considered that the existing framework was capable of meeting challenges of CPRS. Some members noted that demand management should play a greater role, particularly as the supply and demand balance for energy supply tightens.

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Issue 4 – System Operation and intermittent generation

Members noted that there are some improvements to the NEM that could be made, but these should be developed through existing mechanisms rather than through the Review. WA members noted that this issue is particularly important for managing system operation in WA.

Issue 5 – Connecting new generators to energy networks

Issue 6 – Augmenting networks and managing congestion

All members considered that these issues warranted further analysis and possible strategies to mitigate risks from introduction of the expanded RET. Key issues related to connections for remote renewables, inter-regional transmission use of the system charges and elements of the existing regulatory test.

Issue 7 – Retailing

Members noted that retail price regulation was a major issue that required further consideration, and should be progressed to the next stage of the Review.

Issue 8 – Financing new energy investments

Members considered that this issue was not in itself material to take forward to the next stage of the Review. It was noted however that this issue intersected with the range of other issues for the Review.

Synopsis of the Third Meeting

The third meeting of the Advisory Committee was held on 13 February 2009 to discuss the outcomes of the 1st Interim Report.

The Committee considered whether the issues identified in the 1st Interim Report were appropriate to progress to the next stage of the Review and 2nd Interim Report (due on 30 June 2009). Issues were discussed for the NEM and WA. Issues for the Northern Territory were not considered material to progress.

NEM Issues

A1: Convergence of gas and electricity

Some members considered that this issue was important to progress particularly due to the potential for market distortions between short-term gas and electricity signals (e.g. price caps) and differences in procedures for emergency management situations.

Members noted that stakeholder submissions from the 1st Interim Report would be taken into account to determine the extent of the issue and need for further consideration.

A2: Generation capacity in the short term

The Committee agreed that this issue was material and options to address risks should be canvassed. Members also indicated that there was a need to ensure that the outcomes of the various reform and review processes occurring by organisations were appropriately linked and there was responsibility assigned to agreed outcomes.

AEMC noted that the MCE has indicated its intention to Review energy market frameworks in light of impact on electricity supplies of extreme heat events as experienced on 29-31 January 2009. The AEMC will undertake this Review in accordance with its functions.

A3: Investing to meet reliability with increased renewables

Members considered that this issue remain “on the table”. This was largely due to the potential short term issues to achieve an adequate level of response in generation capacity. It was highlighted by a few members that this may be specifically related to the financial crisis rather than attributable to the operation of energy market frameworks.

Some members noted that the overarching framework is sufficient, long-term, to address the impacts of CPRS and expanded RET.

Members noted that stakeholder submissions would be considered with respect to the extent that this issue would be revisited in the next stage of the Review.

A4: System Operation and intermittent generation

Members considered that this issue was not material to take forward, however noted the importance to review and ensure appropriate responsibility for delivery of outcomes from the varied reviews and reform processes occurring by various organisations.

A5: Connecting new generators to energy networks

Members noted that this issue and the options presented in the 1st Interim Report are appropriate. Key issues raised with the range of options included:

Option 1 - a few members considered that accessing all relevant information may not be achievable due to commercial interests.

Options 2/3 – some members noted the potential for inconsistencies between the “economic test” and the existing regulatory test approach.

Option 4 – one member noted the potential for consumers to be exposed to increased costs. It was noted by many members that the regulatory test acts as a proxy to protect consumers from inefficient decision making.

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A6: Augmenting networks and managing congestion

The Committee noted that this issue required further analysis to determine extent of materiality as per outcomes of the 1st Interim Report. It was noted by a few members that upgrades to network infrastructure should be considered, particularly with respect to whether future upgrades would pass the existing regulatory test. Some members also noted interactions and potential issues arising from the Australian Energy Regulatory WACC Review.

A7/B7: Retail

Members noted that whilst there was a range of actions occurring under MCE with respect to price regulation and pass through of carbon costs, it was appropriate for the AEMC Review to consider this issue. Key issues raised included:

- the need for flexibility to be built into the existing price regulation arrangements;
- consistent approach for determining costs related to CRPS and expanded RET;
- importance of the customer protection framework in light of rising retail prices; and
- need to consider costs that will be faced by distribution networks

A8: Financing

Members noted that while this issue should not be progressed, there was a need to consider this issue in the context of each of the other areas being progressed.

WA Issues

Members considered that WA issues raised as material in the 1st Interim Report were appropriate to consider for the next stage of the Review. Members also noted that the Western Australia authorities are currently progressing work in some of these areas and that there is dialogue occurring between the AEMC and WA with respect to these areas.

Synopsis of the Fourth Meeting

The fourth meeting of the Advisory Committee was held on 11 June 2009. The purpose of the meeting was to discuss the draft recommendations and findings for the 2nd Interim Report.

Members considered the following key areas:

- recent changes to CPRS policy and the implications for the Review; and
- draft recommendations where the Review is recommending changes to the existing frameworks and those areas which can be addressed in a timely manner under the existing processes with only incremental changes.

NEM Issues – Review recommendations to change existing frameworks

Generation capacity in the short term

The Committee noted the proposed recommendations to strengthen the frameworks for information provision to NEMMCO (AEMO) and to assess the possibility of increasing the flexibility of responses available to NEMMCO (AEMO) for intervention.

Members indicated that there was a need to be clear on the purpose of the proposed mechanisms and existing mechanisms/process (AEMC Reliability Panel) to achieve similar objectives.

Many members reiterated that the use of the Reliability and Emergency Reserve Trader (RERT) distorted market processes.

Connecting remote generation

The Committee discussed the detail of the proposed recommendation for a new framework for planning, pricing and funding transmission (or distribution) investment to create connection “hubs” in remote areas.

Some members observed that there should be a need for generators to demonstrate commitment (i.e. deposit) to a possible connection hub project.

A few members noted concern with the stranded asset risk. These members were concerned with the controls on overbuilding any asset and the controls to prevent customers from incurring excessive costs.

Some members noted that these extensions may begin to look like part of the shared network and consideration of this should be given in the Review.

Efficient utilisation and provision of the network

The Committee was presented with an overview of the options to address these issues. Members noted that there was a need for further detail on the model before making any further comments, however they raised concern with:

- the possibility of costs changing over time; and
- the need to ensure that frameworks provide market access for the life of the asset.

Members noted the removal of 5.4A from the National Electricity Rules, and consideration should be given to how this might apply to loads.

One member noted that there may be a need for a transitional measure for existing commercial agreements.

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Regulated retail prices

The Committee considered the draft recommendations for a mechanism to allow for adjustment in regulated tariffs every six months for adoption by jurisdictional regulators. Many members considered that CPRS will increase uncertainty and volatility of future wholesale energy costs.

Some members noted concern with the detail of the mechanism, including whether it was workable in all jurisdictions and whether it would be triggered for all retailers if one retailer made an application.

A few members noted that a retailer-led model for adjustment in regulated tariffs might not be effective as there is no incentive for retailers to cut prices.

NEM Issues – Review recommendations not to change existing frameworks

Convergence of gas and electricity markets

The Committee discussed the reasoning for not recommending any change to the frameworks for this issue.

A few members expressed concern that CPRS was likely to favour certain types of generation which would result in increasing market power.

Some members noted that there was a need for consistency between markets when changing the market settings.

Investment in capacity to meet reliability standards

Members considered the reasoning for not recommending any change to the frameworks for this issue.

One member noted concern that there would be increased reliance on the market price cap given it is required to achieve a number of objectives.

System operation with intermittent generation

The Committee discussed the reasoning for not recommending any change to the frameworks for this issue. Members noted that the introduction of the Central Dispatch Rule and improved forecasting have helped to mitigate this issue.

Distribution networks

The Committee noted the reasoning for not recommending any change to the frameworks for this issue. No further comments were made on these issues.

WA Issues

The Committee considered the proposed recommendations for:

- System operation with intermittent generation in Western Australia; and
- Connecting remote generation and efficient utilisation and provision of the network in Western Australia.

Members noted that some of these draft recommendations are aligned with current work programs.

The Committee noted the reasoning for not recommending any change to address:

- Convergence of gas and electricity markets; and
- Reliability in the short term and longer term in Western Australia.

Synopsis of the Fifth Meeting

The fifth meeting of the Advisory Committee was held on 10 September 2009. The purpose of the meeting was to discuss stakeholder submissions to the 2nd Interim Report and the directions for the Final Report across each of the Issues considered in the Review.

Directions for Review Final Report

Review Issues - recommendations for framework change

Connecting remote generation

The Committee noted the draft recommendation to introduce a new framework in the National Electricity Rules for the efficient connection of potential generation clusters.

Some members discussed the whether the key requirement for clusters of generation should be remoteness from the network. It was noted that the key consideration of the assessment should be the existence of economies of scale, rather than remoteness.

One member expressed concern regarding the transmission business processes for passing costs to consumers and the existing methodology used in determining those costs.

Another member noted that the network assets built under this new framework should be staged to address that risk that generation may not arrive, or may not arrive when predicted.

Efficient utilisation and provision of the network

The Committee noted the draft recommendations for this issue, i.e. the need for a long term transmission pricing signal for generation and a location-specific, time-limited congestion pricing mechanism.

The Committee noted that the key recommendation for the Final Report was likely to include the need for an ongoing work-program to work through the key policy proposals and determine feasible designs/preferred approaches.

One member noted that any new charging regime should apply to all generators, not just new entrants. Others noted that the ongoing work-program should consider how the existing charging regimes should be changed to ensure that enough transmission is funded for generation investors to compete effectively in the market.

Inter-regional transmission charging

Members noted the draft recommendation to introduce an obligation on transmission businesses to 'levy' a load export charge on the transmission business in each adjacent region.

Some members noted that currently Network Service Providers are able to decide the basis on which charges are allocated, and expressed concern regarding sudden large changes in costs. It was highlighted that there may be a need for a separate methodology to calculate these charges.

Regulated retail prices

Members noted the draft recommendation for increased flexibility in existing retail price regulation frameworks, where price regulation is retained across jurisdictions to address issues of carbon pricing. The Committee also noted the draft recommendation that the removal of price regulation where competition is assessed as effective is considered to be the most effective approach to addressing the likely risks resulting from the CPRS.

Some members considered that the application of guiding principles as proposed would assist those retailers who operate across jurisdictions borders.

Generation capacity in the short term

Members noted the draft recommendation to expand the existing options for AEMO to procure reserve, and that the existing Electricity Rules be amended to promote more accurate reporting of demand side capability.

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The Committee noted that the proposal for options for AEMO to procure reserve was being considered by the current AEMC RERT rule change proposal. One member highlighted concern that the current RERT rule change proposal excludes medium and small generators and therefore is not likely to increase the level of demand side response in the NEM.

Other key issues included: the need to review the sunset clause for the RERT mechanism and that the proposal was likely to allow large users to more actively participate in the market.

One member noted concern regarding future consultation and opportunities regarding the consideration of demand side response issues. It was noted that the AEMC welcomes continuing dialogue and further engagement with stakeholders on this issue.

Review Issues - recommendations for implementation within existing market frameworks

Convergence of gas and electricity markets

Members noted the draft recommendation that existing frameworks do not require amendment and the supplementary recommendations that the Reliability Panel should consult with AEMO on its current review of electricity market settings; and that AEMO should review processes for market intervention.

One member noted restrictions on AEMOs ability to manage the convergence of the gas and electricity markets, that is, AEMO will only have control over parts of these markets.

System operation with intermittent generation

Members noted the draft recommendation that the existing energy market frameworks are sufficient to enable the system operator to maintain a secure system following the anticipated large increases in renewable generation.

Members also noted the supplementary recommendation that the Network Support and Control Services review commenced by NEMMCO should be completed by the AEMO as soon as practicable.

Distribution networks

Members noted the draft recommendation that existing frameworks do not require amendment however, consideration of the existing AER demand side participation innovation scheme could be extended to accommodate consideration of innovation in frameworks for embedded generator connections.

One member suggested that a mechanism be introduced to enable sharing of the costs of connecting co-generation and tri-generation plant (i.e. costs of upgrading existing network assets) with subsequent connecting parties.

Review Issues - no change is required to existing framework

Investment in capacity to meet reliability standards

The Committee noted the draft recommendation that existing frameworks do not require amendment.

A few members considered that focussing on the market price cap as the only price signal to investors will only lead to investment in peaking generation and the Review should consider other market mechanisms to encourage capacity.

It was noted by another member that investment is affected by a number of factors (i.e. fuel costs/carbon price uncertainty) and that the market price cap alone is not a sufficient signal.

Western Australia / Northern Territory

Members noted the draft recommendations, the need to improve transparency for dispatch and balancing and resulting costs and cost allocation; and the processes for connecting new generators and efficient utilisation and provision of the network.

Members noted on the recent and ongoing work to address most of these issues, including the Verve Energy Review.