



Strategic Priorities for Energy Market Development 2015: Discussion Paper

Every two years the AEMC considers the strategic priorities for the development of Australia's electricity and natural gas markets. We are currently conducting our third strategic priorities review to determine whether the current priorities developed in 2013 remain appropriate.

Purpose of the Strategic Priorities

The purpose of the strategic priorities is to frame key issues for consideration and dialogue among consumer groups, market participants and policy makers. To the extent that the AEMC has a degree of discretion over its work program, the priorities assist with the prioritisation of resources and the development of new work streams, as well as directing stakeholder engagement priorities.

Context for the Strategic Priorities

Energy prices and other outcomes that consumers experience in retail markets result not only from the rules applied to the sector, but also from the work of the Energy Council, its market institutions and policies external to the energy sector. These serve as important context for the development of the AEMC's strategic priorities. The AEMC has considered a range of external influences when reviewing the strategic priorities this year, including:

- **Governance of the energy sector** – An expert panel is currently reviewing the national energy market governance arrangements to assess the effectiveness of the governance models and whether they remain fit for purpose. The preliminary findings from this review suggest there will be some significant changes in the way the Energy Council engages with the market on priority setting.
- **Environmental and social policies** – Addressing environmental and social issues requires value judgements that take into account information about the broader economy. These issues clearly rest with governments. However, such policies can directly influence outcomes in energy markets. External policies that are developed with regard to energy policy will have a greater likelihood of minimising costs faced by consumers and maintaining appropriate incentives on energy market participants.
- **Public perceptions about market frameworks** – Aspects of the energy market framework in Australia have received a lot of attention in recent years, particularly the impact of retail competition and the regulation of network businesses. It is important that there is a good understanding of the market frameworks in the public domain.
- **Gas supply side issues** – Upstream policies that impact on the supply of gas are outside of the AEMC's remit, but influence market outcomes and provide important context for gas market development.

The AEMC is interested in further understanding the views of stakeholders on the impact of these and any other external influences on the energy sector. We also want to identify ways in which the AEMC can support and work alongside the broader energy sector to identify priority reform areas and timely implementation strategies.

Current Strategic Priorities

Our current strategic priorities were established in 2013 and developed in consultation with consumer groups, government and the energy industry. These priorities are:

- **Consumer participation:** Strengthening consumer participation and continuing to promote competitive retail markets.
- **Gas market development:** Promoting the development of efficient gas markets.
- **Flexible market frameworks:** Promoting market arrangements that encourage efficient investment and are flexible and resilient.

The AEMC's strategic priorities relate to energy market development, and seek to promote efficient, reliable and secure market frameworks for energy services, which serve the long-term interests of consumers.

2015 Strategic Priorities

The AEMC's preliminary view is that the current strategic priorities continue to remain relevant and that the 2015 edition could be considered more of an evolution of the existing priorities, where additional focus and refinement is provided to the three areas.

Consumer priority

This priority aims to provide opportunities for consumers to participate confidently in all parts of the energy supply chain. Empowered consumers can benefit from, and contribute to, the effective functioning of the energy sector. Going forward, we consider that this priority should have the following three areas of focus:

1. **Engagement:** Do consumers have enough useful information to shop around? How do consumers, with divergent interests, engage with the regulatory process?
2. **Participation:** Do prices consumers pay for energy reflect the costs of supplying them? Do consumers have the ability to respond to these price signals, particularly through access to new technologies? Is supply responsive to changing consumer preferences and choices?
3. **Protection:** What consumer protections are required in response to technology and new business models? How should the National Energy Customer Framework evolve?

Gas priority

The gas priority will complement the East Coast Gas Review and the Victorian-specific gas review that the AEMC is undertaking. We propose the following three areas of focus which reflect our broad interpretation of the Energy Council's vision for Australian gas markets:

1. **Wholesale gas trading markets:** How should the gas trading markets be structured to maximise efficiency of trade and minimise transaction costs?
2. **Pipeline capacity trading:** How should the transmission pipeline framework promote efficient investment and allocation of capacity, while supporting trade in wholesale gas markets?
3. **Information:** What information does a liquid wholesale gas market require to function effectively?

Market and network priority

This priority reflects the importance of market and regulatory arrangements which promote efficient investment decisions. We propose to refocus this priority on the areas where we see tensions likely to emerge over the next few years:

1. **Technology and new business models:** How does regulation need to evolve to permit innovation in new products and services to the benefit of consumers, without eroding the customer outcomes that regulation intends?
2. **Network evolution:** What will be the effect of evolving technology on network investment and operation over the medium term? Will current regulation be appropriate for the business model evolution that be required?
3. **Policy integration:** How can policies in other portfolios be better integrated with energy markets?

Next steps

We are seeking stakeholder input on the Discussion Paper, with submissions closing on Friday, **9 October 2015**. A half day public forum will also be held on the morning of Wednesday, **30 September 2015** in Sydney.

We expect to publish the final report for the 2015 strategic priorities in late November.

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