



FAQ

Review of Energy Market Frameworks in light of Climate Change Policies

Overview

What is the AEMC Review of Energy Market Frameworks in light of Climate Change Policies?

The review will advise the Ministerial Council on Energy (MCE) on changes to energy market frameworks, including electricity and gas market rules and regulations, that may be needed to ensure that consumers continue to get safe, secure and reliable energy after the introduction of the Carbon Pollution Reduction Scheme (CPRS) and expanded Renewable Energy Target (RET).

Relevant documents can be found here.

Who has called for this review?

At its meeting of 13 June 2008, the MCE directed the AEMC to conduct a review of the current energy market frameworks in WA and NEM states in light of climate change policies (specifically the CPRS and RET).

Read the MCE Terms of Reference here.

Why has the MCE asked the AEMC to conduct this review?

The AEMC has two roles in relation to national energy markets – as rule maker and as provider of advice on how best to develop energy markets over time. Market rules are framed in terms of meeting the national electricity and gas objectives. We are now required to make an assessment of how the CPRS and RET will affect the ability of existing energy market frameworks to continue to promote the market objectives.

What is the Review Timetable?

The MCE have requested final advice by 30 September 2009. We have consulted through a Scoping Paper (October 2008), 1st Interim Report (December 2008) and 2nd Interim Report (June 2009).

To what extent will the CPRS and RET affect the energy market?

The Australian energy sector is a major emitter of greenhouse gases, with around three quarters of our electricity produced by burning coal (54% from black coal, 21% from brown coal). Gas generation accounts for just a sixth of electricity production.

The planned introduction by the Australian Government of the CPRS will price carbon emissions and introduce significant new costs to electricity generators.

The expanded national RET is designed to produce a greater uptake of renewable energy in Australia's electricity supply.

Why is this review important?

The proposed CPRS and expanded RET will change the economics of Australia's energy market and influence the behaviour of investors, market participants, and consumers over the long term.

It is prudent and appropriate to examine market rules and regulations to help ensure that these changed behaviours continue to provide high quality, secure and reliable energy supplies at efficient cost.

2nd interim report

What is the review's 2nd interim report about?

The 2nd Interim Report is a key milestone. It sets out the AEMC's

draft findings and recommendations for consultation. The 2nd Interim Report is the final stage of our consultation process before the AEMC provides its final advice to MCE in September 2009.

3 August 2009 – Submissions close on 2nd Interim Report.

What are the draft recommendations for change in the 2nd Interim Report for the NEM states?

We have identified the need for change to existing NEM frameworks in the following key areas:

- Regulated retail prices – recommendation to increase flexibility of how regulated retail tariffs are set in those jurisdictions which still retain retail price regulation.
- Connection of new remote generation to energy networks – recommendation to improve how investment to connect to generation in remote areas is planned, priced and funded.
- Network congestion – recommendation to introduce more cost reflective charges for generators in respect of their use of the transmission network.

What are the draft recommendations for change in the 2nd Interim Report for WA?

Our recommendations for change in the Western Australian market include:

- System operation with intermittency – recommendation to increase the transparency of dispatch decisions and balancing costs.

The Commission's 2nd Interim Report will form the basis of final advice to the Ministerial Council on Energy in September 2009 on the extent to which national energy market frameworks require amendment to accommodate introduction of the Carbon Pollution Reduction Scheme (CPRS) and expanded Renewable Energy Target (RET)

- Connecting remote generation and network congestion – recommendation for assessments of a range of options that span connections and network issues to improve existing market frameworks.

What are the other key findings in the 2nd Interim Report?

We are not recommending changes to a range of other key issues in scope of the Review, e.g. convergence of gas and electricity markets and investment in capacity to meet reliability standards.

We have made observations that there may be a need for improvements within some of the existing frameworks, e.g. to provide continuing incentives for investment in generation capacity.

1st interim report

What was the review's 1st interim report about?

In the review's Scoping Paper (October 2008) the AEMC raised eight issues where the introduction of the CPRS and RET had the potential to put at risk the ability of the current energy market frameworks to satisfy national electricity and gas objectives. The 1st Interim Report (December 2008) set out the AEMC's views on which issues are most material.

What is the Stakeholder Advisory Committee?

The MCE asked the AEMC to establish a committee made up of representatives of regulators, industry and end user groups. The Advisory Committee provides feedback to the AEMC throughout the review process. Read more about the role and membership of the Advisory Committee here.

Energy market frameworks

What is the review's definition of energy market frameworks?

These frameworks include the Law and Rules governing the national electricity and gas markets. They may also include

other laws and state-based regulatory instruments that have a material impact on behaviour in energy markets.

Does this mean the AEMC could for the first time propose changes to state-based regulations in these markets?

We already provide advice to Ministers on state-based regulation in the context of the price regulation of retailers. Consistent with the approach to that issue, we anticipate that any recommendations relating to parts of the framework outside the scope of the National Energy Market Law and Rules will be in the form of observations for consideration by relevant authorities. However, decisions on how to respond to our analyses and observations on state-based regulatory frameworks will be matters for the MCE and relevant jurisdictional governments.

Will the review be changing electricity and gas rules and regulations?

Amendments will be proposed if they can be demonstrated to contribute to the market objectives of efficient, safe, secure and reliable supplies in the long-term interests of consumers. We will pay close regard to the benefits and costs of change – and only propose options which can be justified as proportionate.

Related reviews

Does this review affect the AEMC's Demand-Side Participation Review?

In late 2007, we initiated a review to identify and remove unnecessary barriers in the Rules to demand side participation. A key impact of CPRS will be a change in the relative cost of demand-side solutions as compared to supply-side responses. There is significant overlap between the DSP Review and the Review of Energy Market Frameworks in Light of Climate Change Policies. The Commission is managing these projects in an integrated way. A Draft Report for the DSP Review was published on 29 April 2009.

Read more on the DSP Review here.

National Electricity and Gas Objectives

What are the National Electricity and Gas Objectives?

AEMC decision making is guided by the objectives set by the National Electricity Law and National Gas Law. Our work must have regard to the objectives which are to promote efficient investment in and efficient use of electricity and natural gas services for the long-term interests of consumers of electricity and natural gas with respect to price, quality, reliability and security of supply of electricity and natural gas; and the reliability, safety and security of the national electricity and natural gas systems.

Natural Gas

Will the review examine security and reliability of gas supply, and acreage management implications for gas field development?

Issues relating to reserves of gas are outside the scope of the review which is focused on energy market frameworks rather than the extent of physical supply. Additionally, issues relating to acreage management are currently being dealt with by a joint working group of the Ministerial Council on Energy and the Ministerial Council on Mineral and Petroleum Resources.

The review has examined the convergence of gas and electricity markets in order to determine if market designs may lead to issues of supply shortfall or provide for inefficient arbitrage opportunities. It has concluded that the new Australian Energy Market Operator (AEMO) would manage and prevent such conflicts.

For information contact:

AEMC Chairman, John Tamblyn
(02) 8296 7800

AEMC Communication Manager,
Prue Anderson
(02) 8296 7817 or 0404 821 935