



Strategic Priorities for Energy Market Development

The AEMC has today published a report on the Strategic Priorities for Energy Market Development. They have been developed throughout 2015 in consultation with consumer representatives, industry and governments. These priorities are designed to assist the COAG Energy Council in the formation of their policy priorities over the coming years and help guide the AEMC's market development advice.

Energy sector dynamics are experiencing accelerating change

The dynamics of the energy sector have changed with an increasingly diverse range of participants – from competitive retail services and energy generation, to regulated networks, government policy-making, regulatory agencies, consumer groups and environmental organisations.

The strategic priorities for the development of the energy market look to the future to help foster an energy sector with the flexibility to respond to changes in technology and business models, increasingly being driven by consumer choices.

By adopting these strategic priorities, the AEMC remains focussed on an efficient, safe, secure and reliable energy system, which delivers outcomes that benefit consumers.

The strategic priorities look to the future

Recognising these developments, the AEMC has defined the following three strategic priorities for the development of the energy market:

- **Consumer priority** – enabling consumers to make informed decisions in competitive retail markets.
- **Gas priority** – promoting the development of efficient gas markets.
- **Markets and network priority** – market and network arrangements that encourage efficient investment and flexibility.

The AEMC has developed these strategic priorities through consultation with consumers, including publishing a discussion paper, on which 27 submissions were received, holding a public forum on 30 September and hosting a range of targeted forums throughout 2015 with consumers groups, government officials, the market institutions and industry.

An expert panel recently reviewed the energy market governance arrangements and as part of this process recognised that the AEMC's role as rule maker and advisor to the Energy Council is increasingly important in the current environment. One of the panel's recommendations was for the AEMC to prepare advice on the strategic direction of the Australian energy market and a forward work program for the Energy Council.

If the panel's recommendation is adopted, the AEMC's engagement approach and the form of recommendations to the Energy Council on the strategic issues of focus will change. One of the key elements of future engagement and consultation will be to actively involve the increasingly broad range of stakeholders interested in the energy sector.

The AEMC's proposed approach and work program associated with this more defined role in the strategic priorities process will be developed in collaboration with Senior Officials and other stakeholders over the months following the Energy Council's consideration of this recommendation.

The AEMC, after consultation with stakeholders throughout 2015, has defined three strategic priorities for energy market development: consumer priority, gas priority and network priority.

Consumer priority: Enabling consumers to make informed decisions in competitive retail markets

Consumers can benefit from the evolving market arrangements and their choices provide important signals to businesses across the sector. As retail markets continue to evolve, consumers need to have the right tools to make the best choices for their circumstances.

The three areas of focus for the consumer priority – protection, engagement and participation – enable consumers to benefit from innovations in energy markets and enhanced competition:

- **Protection:** Energy-specific consumer protections, above and beyond the protections provided by the *Australian Consumer Law*, require rethinking as a result of new technologies and business models. This is important in order to prevent detrimental consumer outcomes that could undermine confidence in retail markets.
- **Engagement:** More work is needed in terms of understanding what information consumers need to meaningfully compare energy offers, and so be able to shop around. There should also be further consideration on whether industry's consultation with consumers through the regulatory process is appropriate.
- **Participation:** Successful implementation of the distribution pricing rule change is a key enabler for energy service providers to package offers for consumers, allowing consumers to make more informed decisions about their electricity use. Consumers need to have the ability and right information, in order to respond to such price signals.

Gas priority: Promoting the development of efficient gas markets

Gas market development and the efficiency of gas trading arrangements are key areas of focus for governments, consumers and energy market participants. As a result of this, the AEMC is currently undertaking two major reviews into the east coast gas market.

For this reason, and based on feedback from stakeholders, the AEMC considers promoting the development of efficient gas markets should be a strategic priority.

The focus of the gas priority is on continuing to progress gas market developments in line with the Energy Council's Vision for Australia's future gas market. The AEMC's recommendations from the gas reviews will set out how gas markets need to develop to support this, along with an implementation plan for the development of the market.

Markets and network priority: Market and network arrangements that encourage efficient investment and flexibility

Existing functions and roles in energy markets will be performed by new and different technologies in the coming years. Given these new developments, it is important that market and regulatory arrangements provide an environment for business evolution that promotes the long-term interests of consumers.

The AEMC considers that market and network arrangements that encourage flexibility should be one of the strategic priorities for energy market development, with the focus on:

- **Technology and new business models:** Energy market arrangements need to be flexible and resilient to respond to changes in technology and new business models, but without eroding the customer outcomes that regulation intends. Also, the changing generation mix - such as the increasing level of large-scale intermittent generation - has potential implications for the efficient operation of the wholesale market.
- **Network evolution:** Networks are evolving from one-way energy delivery systems in a growth environment into multi-directional "smart grids". A key question is where to draw the line between what is regulated, and what is not regulated in this space.
- **Policy integration:** Policy integration of external policies that impact on the energy market is important. Energy policy and environmental and social policies can co-exist but consumers' interests will be better served if they are explicitly developed in a complementary and mutually reinforcing way.

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