

Australian Energy Market Agreement (AEMA)

The following sections of the AEMA outline the framework for the Commission's retail competition reviews.

Retail Price Regulation

- 14.10 The Parties reaffirm their commitment to full retail contestability in accordance with the National Competition Policy Agreements.
- 14.11 All Parties agree to phase out the exercise of retail price regulation for electricity and natural gas where effective retail competition can be demonstrated and that:
- (a) the AEMC will assess the effectiveness of competition for the purpose of retention, removal or reintroduction of retail energy price controls, whereby:
 - (i) the criteria for assessing the effectiveness of competition will be developed by the MCE in consultation with the AEMC and other interested parties based on the principles set out in Annexure 3;
 - (ii) the assessment process will commence from 1 January 2007 starting with those jurisdictions most likely to have effective competition; and reviews will be conducted biennially, unless the AEMC recommends otherwise, until all retail energy price controls are phased out or at the request of a Party thereafter;
 - (iii) reviews will be conducted biennially, unless the AEMC recommends otherwise, until all retail energy price controls are phased out or at the request of a Party thereafter;
 - (b) social welfare and equity objectives will be met through clearly specified and transparently funded State or Territory community service obligations that do not materially impede competition; and
 - (c) the AEMC will publicly report on its assessments of effective competition in which it will provide advice to each jurisdiction on their compliance with clauses 14.10 - 14.14 and on:
 - (i) ways to phase out the exercise of retail price regulation if competition is determined to be effective and an appropriate timeframe; or
 - (ii) ways to promote the growth of effective competition for those users or areas of a jurisdiction which do not enjoy effective competition.
- 14.12 The Parties agree that where competition is not yet effective for a market, group of users or a region:
- (a) retail energy price controls (including those furthering social welfare and regional equity objectives) can be imposed by the relevant State or Territory but should, to the extent possible, not hinder further development of competition and ensure that the benefits outweigh the costs, and costs are minimised; and
 - (b) retail energy price control will be retained under the existing arrangements or be transferred to the AER and the AEMC at the discretion of each jurisdiction (such a transfer would not include the funding of community service obligations).

- 14.13 Where competition has been found to be effective under clause 14.1 1, the Parties agree to implement the phase out of the exercise of retail price regulation in accordance with clauses 14.14 and 14.15
- 14.14 The Parties agree that the phase out of the exercise of retail price regulation under clause 14.1 3 :
- (a) need not include the removal of 'obligation to supply' arrangements;
 - (b) may involve a period of price monitoring and for price agreements with retailers under appropriate oversight arrangements; and
 - (c) does not prevent the exercise of a reserve price regulation power by the State or Territory where effective competition for categories of users ceases, provided that the power is only exercised in accordance with a regulatory methodology promulgated by the AEMC, and is subject to review by the AEMC of the effectiveness of competition in accordance with clause 14.1 1.
- 14.15 The Parties further agree that, for the purposes of the phase out of the exercise of retail price regulation under clause 14.13, the process for responding to advice from the AEMC under clause 14.1 1(c)(i) will be as unanimously agreed by the MCE by 1 July 2006.
- 14.16 The functions and powers conferred on the AEMC by clauses 14.1 1, 14.14 and 14.15 are taken to be conferred on the Economic Regulation Authority for the State of Western Australia until such time as Western Australia elects to join the NEM or the Economic Regulation Authority is disestablished. The Economic Regulation Authority will conduct these functions and powers in consultation with the AEMC and in accordance with the national consistent methodology developed by the AEMC.
- 14.17 The Parties agree that, where retail prices are regulated, energy cost increases associated with the Carbon Pollution Reduction Scheme and the Renewable Energy Target shall be passed through to end-use consumers.