



## Strategic priorities for energy market development - 2011

Post-consultation paper published 20 October 2011

**The AEMC has finalised the priorities for energy market development. This paper is based on extensive public consultation. It considers the major challenges facing the nation's stationary energy sector and includes community views and concerns on what really matters for the continuing delivery of reliable and secure electricity and gas services.**

### Building a well-informed debate on structural adjustment in energy

The AEMC has today published strategic priorities for the stationary energy sector which will guide our market development work and inform the advice we provide to governments.

The strategic priorities have been developed in co-operation with a broad range of community, industry and government representatives who provided us with a number of valuable insights and suggested new areas of interest for further development in the AEMC's continuing work program.

### Working on the strategic priorities

This year the AEMC launched a new process of engagement to inform our formal rule making and reviews work in the context of strategic market development. We produced a discussion paper and held a public forum in April 2011 to bring ideas together on the most important energy issues for consumers, industry and governments.

The result was substantial agreement around three strategic priorities for the continuing delivery of reliable and secure energy for the whole community. Our work on market development will be cognisant of these priority needs to:

- Help ensure that the environment for investment is as predictable as possible;
- Examine ways in which consumers can actively and cost effectively manage their demand; and
- Seek to improve the regulatory framework for networks so that it makes the most efficient use of existing assets and delivers new investment in timely and efficient ways.

The strategic priorities will be updated periodically to incorporate continuing stakeholder consultation. We will be presenting the priorities produced by this engagement to COAG's Standing Council on Energy and Resources.

### Strategic priority one: a predictable regulatory and market environment for rewarding economically efficient investment

The stationary energy sector is facing an unprecedented requirement for new investment. This investment is needed to meet the objectives of climate change policies and to ensure that demand for energy continues to be met.

It is important to ensure that this investment occurs efficiently. This will minimise cost impacts and help to minimise prices of energy for all Australians.

Predictability of regulatory and market environments greatly influence investment efficiency. Policy uncertainty, particularly in relation to carbon pricing and other measures with environmental objectives, has been influencing investment decisions.

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### **Strategic priority one continued.**

We will continue to provide advice on these issues as requested by government. We are also progressing a number of reviews and rule changes related to the ability of the market frameworks to deliver efficient investment.

### **Strategic priority two: building the capability and capturing the value of flexible demand**

An active demand side provides opportunities to address the key challenges affecting the energy sector. It can help reduce the need for new investment and can also help manage the effects of intermittent generation.

A number of issues must be addressed in order to exploit the potential of cost effective flexible demand to help deliver efficient overall costs of supply. It is important to understand the information that customers require to be confident to participate in demand side and energy efficiency opportunities. The commercial, technical and regulatory arrangements need to be aligned.

The AEMC's Power of Choice review will examine the potential for cost effective DSP throughout the energy supply chain, and identify any measures that are needed to facilitate these opportunities. We are also progressing a number of rule changes related to effective implementation of demand side participation into the market.

### **Strategic priority three: ensuring the regulation of transmission and distribution networks promotes timely investment and efficient outcomes**

Reliable and secure network services are crucial to the efficient operation of the electricity market. Networks are major contributors to the cost of customers' energy bills, so it is important to ensure that these essential services are delivered as efficiently as possible.

A number of key issues relating to networks have been identified, including the cost and impacts of congestion, the nature of charging and the framework for connecting to the network. The economic regulation of networks is another key issue, including how rates of return are calculated and the way in which network business revenue is determined.

The AEMC's Transmission Framework Review is examining whether transmission networks will be sufficiently robust to meet the challenges of the future. The AEMC has just begun considering a number of changes to the rules relating to the economic regulation of network businesses.

### **Other issues**

Two key areas for continuing consideration have been identified.

#### **The gas market and its interaction with the National Electricity Market**

Respondents to our discussion paper highlighted that a number of significant changes are underway in the gas sector, including the establishment of new markets and new LNG developments. Increasing convergence of electricity and gas markets may also create new supply and security challenges. The AEMC will examine these issues in greater detail and will develop a work program in conjunction with the Standing Council on Energy and Resources and relevant stakeholders.

#### **Changing industry structure**

Competitive businesses are increasingly moving toward a vertically integrated business structure. While this represents a rational response to market conditions, it may also have implications for liquidity of contract markets, investment efficiency and security of supply.

The AEMC considers it is important that regulatory and policy settings encourage a range of business models to compete in the energy market, and that competition will help determine the most efficient business models.

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