

20 May 2011

Mr John Pierce
Chairman
Australian Energy Market Commission
Level 5, 201 Elizabeth Street
Sydney NSW 2000

via website: submissions@aemc.gov.au

Dear Mr Pierce

Response to AEMC Discussion Paper – Strategic Priorities for Energy Market Development

Thank you for arranging the Stakeholder Forum on 1 April in Melbourne and for launching the AEMC Discussion Paper, Strategic Priorities for Australian Energy Market Development (AEMC's paper). The Forum provided an excellent opportunity for stakeholders to understand the Paper and the direction the AEMC sees as priorities for the future.

The ENA welcomes the opportunity to contribute to this paper and our comments are included below.

Key Message:

1. The ENA endorses the publication of strategic priorities for energy market development by the AEMC (comments on each are provided below).
2. The ENA agrees with the comments on energy networks made by Minister for Energy and Resources, The Hon. Martin Ferguson AM MP in his presentation to the AEMC Forum and to the ENA Smart Network Summit.

Comments

The ENA generally agrees with the three strategic priorities for development of the energy market as proposed by the AEMC i.e.

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| Priority one | A predictable regulatory and market environment for rewarding economically efficient investment. |
| Priority two | Building the capability and capturing the value of flexible demand and |
| Priority three | Ensuring the transmission framework delivers efficient and timely investment. |

However it is worth noting two key points before addressing each of the AEMC's priorities;

1. The AEMC's paper is primarily focused on electricity and the National Electricity Market (NEM). We believe that gas also plays an important role in the energy market now and in the future.

2. The national regulatory frameworks for networks (law and rules) have operated for almost one round of the five-year regulatory reviews. The carefully crafted policy that underpins the law and the rules is providing a firm foundation for efficiency network investment. The AER and network businesses now have experience in conducting its first round regulatory reviews – and in merits reviews – and this experience can inform the AEMC as it considers any possible rule changes. The ENA sees the opportunity for rule changes to enhance the application of the current policy and clarify interpretation of the rules or to improve the statutory processes for the next round. After only a few years of operation, there is considerable risk and no clear benefit in fundamental changes to governance arrangements or principles of network regulation set down in the law and rules.

With regard to the AEMC's priority one, we agree with the AEMC that the main focus should be on generation. The uncertainty in the market caused by different and inconsistent climate change policies has slowed maintenance and upgrading of existing power stations and delayed planning for new stations.

We believe that investment in distribution and transmission has generally been made in an efficient and timely manner and achieved the goals set out for it in the National Electricity Objective and the National Gas Objective. Necessarily networks must continue to evolve to meet market needs and customer expectations for new and improved service. We also note that the AEMC recognition that it should build on the features of the current regime that promote economically efficient investment that includes a predictable regulatory environment are equally applicable for network businesses.

For priority two we support greater input from the demand side as an important part of evolving the market. The AEMC Market Review on Demand Side Participation - Stage 3 will assist in pursuing this objective. Network businesses support initiatives whereby ever increasing peak demand can be met or managed in an efficient manner, although it should be noted that integrating demand management solutions brings new challenges to network businesses. For example networks are generally not designed for large export capability. The ENA supports this priority providing that network issues are addressed as part of the strategic priority.

For priority three we agree with the recently published AEMC Directions Paper where it was stated that:

- there are a number of issues around the interaction between the generation and transmission sectors (firm access, network charging, congestion management, supply standards, connection) that it is timely to review as part of the ongoing evolution of the NEM – the scope of the TFR moving forwards; and
- network regulation should be addressed separately – the AEMC notes the AER will conduct a review of the effectiveness of the network regulation provisions in the rules later this year.

As indicated above, at this stage, the ENA does not support a broad review of the law and rules for the economic regulation of energy networks. We understand that the AER is currently analysing its recent regulatory reviews, and it may propose a number of changes to the processes and interpretation of the rules. The ENA and its members look forward to providing their insights to the AEMC as it considers any AER rule change proposal.

The ENA also supports the comments on energy networks made by the Minister for Energy and Resources, The Hon. Martin Ferguson AM MP in his presentation at the AEMC's forum and at the ENA Smart Network Summit on 18 May 2011. The Minister noted the increases in distribution prices in recent years and this reflects a range of complex factors including the need to replace ageing assets and the need to strengthen networks to cope with rising peak demand and to improve reliability. The Minister highlighted that network businesses must continue to make large commercial investments to ensure reliable and secure energy

supplies. ENA submits that the capacity of network businesses to depends to a large extent on sound and stable regulatory policy.

We recognise the work put into the Strategic Priorities Discussion paper by the AEMC and appreciate the opportunity to contribute to its development. If you have any questions please contact Jim Bain on 02 6272 1516.

Yours sincerely

Jim Bain

Acting Chief Executive