



Strategic Priorities for Energy Market Development 2013

The AEMC has today published a report on strategic priorities for energy market development. These priorities will underpin our work, helping to guide our advice to the Council of Australian Governments' (COAG) Standing Council on Energy and Resources (SCER), and our approach to rule making. They have been developed in consultation with industry and consumer representatives.

Significant developments

In December it will be 15 years since the National Electricity Market (NEM) was created. The market has faced numerous challenges and opportunities in that time, including a change of governance structure, changes in industry structure, new entry at retail level, timely investment in generation capacity, new network regulation rules and a global financial crisis (GFC). The market has coped well with these developments. Yet the industry now faces greater challenges and uncertainties than at any time since the NEM started.

Government environmental policies, a fall in demand growth, significant rises in retail prices and higher cost of capital since the GFC have changed the landscape of the energy industry in recent years and made forecasting the future more difficult for customers and investors.

The gas market has perhaps confronted fewer shocks than the NEM but now faces its most significant period of change, namely the development of LNG facilities for export from Gladstone.

Refining the priorities

This is the AEMC's second review to develop strategic priorities for energy market development. The two years since our first review have brought considerable change, in the energy market and in our work program.

We have seen the introduction of a carbon price, a significant slowing in electricity demand growth, an increase in distributed generation, and progress in developing LNG export facilities in Queensland. In addition, state and territory governments have implemented other changes affecting the energy market. These include steps to further deregulate gas and electricity retail markets.

The AEMC has made substantial progress with many projects connected to the strategic priorities established in 2011. We have completed a major change to the rules for electricity and gas network regulation. We have also provided final reports to the SCER for our Power of Choice Review and Transmission Frameworks Review.

These developments in our work program, as well as the external environment, have informed this second strategic priorities review.

Positive engagement

The positive engagement of stakeholders in preparing this document confirms the value of using a consultative process to develop our strategic priorities. It also reflects the AEMC's responsibility to carry out our work in a transparent, predictable way.

Given the widespread support for the three priorities proposed in our discussion paper, we confirm these as our refined set of priorities for energy market development.

The electricity industry now faces greater challenges and uncertainties than at any time since the NEM started

Consumer priority – strengthening consumer participation and continuing to promote competitive retail markets

Our consumer priority recognises the changing role of consumers in energy markets. Empowered consumers can benefit from, and contribute to, the effective functioning of the electricity and gas sectors.

The consumer priority is about enabling consumers to confidently participate in all parts of the energy supply chain where they desire to do so. This reflects an environment in which consumers are presented with greater opportunities for active participation as technologies advance, retailers differentiate their offerings and competition increases.

Gas priority – promoting the development of efficient gas markets

The gas priority is about the development of efficient gas markets. This priority represents the most notable change to our strategic priorities and reflects stakeholders' renewed focus on the efficiency of the gas supply chain.

There is little disagreement among participants that the eastern gas market is experiencing a period of significant change. But uncertainty exists around what these changes mean and the direction that gas market development should take over the next 10 to 15 years.

The scale of the changes which are occurring in the gas sector means that it is important to evaluate whether the existing downstream market frameworks continue to be well suited to the new environment in which they are now placed.

The AEMC will continue to work with SCER, the Australian Energy Market Operator, the Australian Energy Regulator and stakeholders more broadly on a pathway to support the development of Australia's gas markets.

Market priority – supporting market arrangements that encourage efficient investment and flexibility

The market priority, which is somewhat an overarching priority, is about an effective market, regulatory and policy environment for investment.

Because future investment requirements are relatively uncertain, market arrangements must be flexible enough to facilitate investments that can be adapted in line with changing policies, market conditions and external factors.

The current oversupply of generation capacity in the NEM means the emphasis now is less on attracting and facilitating sufficient investment in generation capacity, and more on attracting the most efficient investments that minimise costs for consumers.

Work program

Our current program includes a number of projects that are relevant to the three priorities. Our refined strategic priorities will guide our market development work and inform the advice we provide to governments.

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