

AEMC reform program

Key projects underway across the energy supply chain

By the end of 2012 we will see new rules in place to change the way Australia's energy sector operates as well as recommendations to energy ministers on further market reform.

The AEMC has two principal functions:

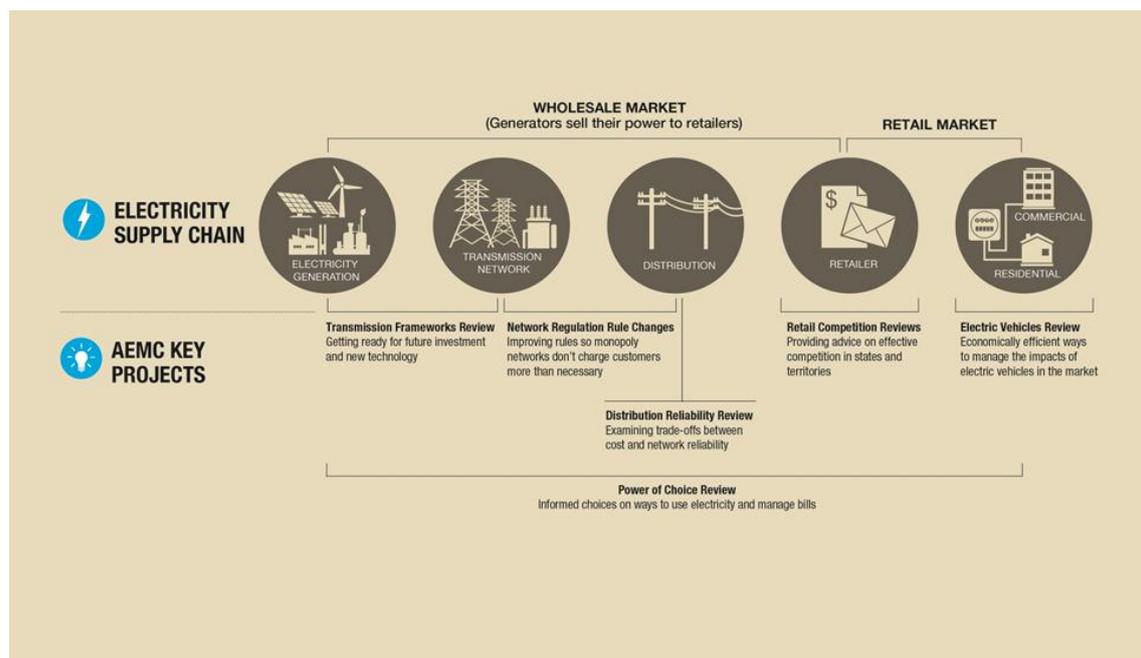
1. A statutory role to make and amend the national electricity and gas rules; and
2. To conduct independent reviews of energy markets for the Standing Council on Energy and Resources.

We have proposed new rules on how the regulator decides network price increases and plan to have those new rules in place by November (**Economic Regulation of Network Service Providers**, draft determination 23 August 2012).

This month we have also announced proposals to deliver cost efficient electricity generation and transmission for the future (**Transmission Frameworks Review**, second interim report 15 August 2012).

Before the end of September we will:

- publish advice for the NSW government on costs and benefits of different reliability outcomes for consumers (**Review of distribution reliability outcomes and standards – NSW workstream**); and
- release draft recommendations for public comment on changes to the National Electricity Rules to help consumers make informed choices about ways they use electricity and manage their bills. This will help drive the most efficient use and delivery of energy services (**Power of choice – giving consumers options in the way they use electricity**, draft report).



The massive cost of providing extensive networks mean these businesses operate as natural monopolies in the regions they service. The AEMC makes the National Electricity Rules that set revenues that network businesses can earn as well as the prices they can charge over five year regulatory periods.

Economic regulation of network service providers

Why this rule change request is being considered

Electricity transmission and distribution businesses build, own and operate the towers, poles, wires and substations required to transport electricity from where it is generated to where it is needed. The massive costs involved in providing extensive networks mean these businesses operate as natural monopolies in the regions they service. The AEMC makes the National Electricity Rules that set revenues that network businesses can earn as well as the prices they can charge over five year regulatory periods.

The AER lodged a rule change request in September 2011 following one full application of the National Electricity Rules to each electricity network service provider. It also submitted a gas rule change request. Another rule change request from a major users' group was consolidated with the AER request as it covered similar issues.

Progress

The AEMC released proposed rule changes on 23 August 2012 to improve the strength and capacity of the regulator to determine network price increases so consumers don't pay any more than necessary for the reliable supply of electricity and gas.

Transmission Frameworks Review

Why the review is being conducted

Transmission networks form the backbone of the national electricity grid. They play a key role in transporting power from generators to consumers and in facilitating competition between generators so that consumers can be provided with electricity at the lowest possible cost. In the earlier years of the NEM, generators were mainly located around fuel and water sources.

In the earlier years of the NEM, generators were mainly located around fuel and water sources. Technological development, economic change and responses to climate change policies are fundamentally changing the way that electricity is generated, transported and will continue to do so in coming decades. Critically, the location and scale of the new generation sources are likely to be very different to those that dominated in the past, and new solutions will be required to ensure that electricity generation and transmission are as efficient as possible to cope with this change.

No-one knows with any certainty what the future supply of electricity will look like in Australia. Wind, wave, gas, distributed generation, solar and other technologies will compete with existing plant for their place as a proportion of overall generation. The role of this review is not to try and define that future but to develop the best framework to underpin whatever transformation eventuates.

Progress

The AEMC is reviewing the role of the transmission sector in providing services to the competitive parts of the electricity market. We have identified clear alternate paths for the planning, construction, operation and use of the electricity transmission network to drive greater efficiency.

Our proposals would fundamentally transform the way generators access the market and the way transmission investment decisions are made. All of the costs associated with generating and transmitting electricity would be taken into account, with business owners bearing more of the risk of their investments rather than passing them all through to customers.

On 15 August 2012 the AEMC called for public comment on proposed changes to the market to encourage cost-efficient investment in electricity generation and transmission for the future.

The Power of choice review is exploring what changes can be made to help families, business and industry make informed choices about the way they use electricity and manage their bills. It is important that the investment needed to meet peak electricity demand is no higher than necessary.

Review of distribution reliability outcomes and standards

Why the review is being conducted

Distribution reliability outcomes are currently set separately for each NEM jurisdiction by jurisdictional regulators, relevant government bodies or individual Distribution Network Service Providers (DNSP), and different approaches are used between jurisdictions.

The AEMC's review of distribution reliability outcomes and standards includes both a review of distribution reliability outcomes in NSW and a review of the frameworks across the NEM for the delivery of distribution reliability standards.

The AEMC was requested by the then Ministerial Council on Energy (now called the Standing Council on Energy and Resources) to undertake this review in August 2011. The review has two workstreams- a national workstream and a NSW workstream.

The NSW workstream

In August 2005 the former New South Wales Government increased reliability standards for NSW distributors in response to a number of outages across the state. NSW distribution businesses are required to meet defined levels of performance under these standards as a condition of their licence to operate. In April 2011, Premier O'Farrell announced a review of electricity distribution licence conditions to reduce any over-spending which may have contributed to increasing retail electricity prices. In June 2011 the Independent Pricing and Regulatory Tribunal (IPART) indicated that network businesses had substantially increased their expenditure on infrastructure to meet the higher reliability standards.

Our review's NSW workstream is to provide advice on the costs and benefits of alternatives for the future level of distribution reliability in NSW – including whether long-term savings could be achieved if standards were altered to reflect levels of reliability acceptable to the community.

The AEMC's advice will be used by the NSW Government who will decide if any changes to the level of distribution reliability in NSW should be made.

Any changes to the level of distribution reliability in NSW would commence from 1 July 2014, at the beginning of the next regulatory control period for the NSW electricity distribution businesses.

Progress

The AEMC's draft report on the NSW workstream was published on 8 June 2012 for public consultation. This report suggested there were significant net benefits to gain from reducing the level of distribution reliability in NSW. Our final advice for the NSW government is due 31 August 2012.

Power of choice – giving consumers options in the way they use electricity

Why the review is being conducted

This review is exploring what changes can be made to help families, business and industry make informed choices about the way they use electricity and manage their bills. It is important that the investment needed to meet peak electricity demand is no higher than necessary. Some drivers for peak demand could be attributable to rapid growth of house-sizes and electrical appliance consumption which increases household energy use at certain times of the day and year – the review will examine options for managing new consumption patterns like these. This review will consult stakeholders to develop realistic options for market development. It will focus on proposals for better product-performance information, technology and pricing and it will make connections between what needs to change in the market to give consumers the choice to make more informed consumption decisions and to capture the benefits of those decisions.

Progress

The review's next stage will deepen its investigation of issues raised by the directions paper (released March 2012) and assess potential options for reform where necessary.

Our focus is on four areas where there are opportunities to facilitate an efficient level of demand side participation in the electricity market over the long term.

- **Consumer participation** – enabling consumers to more actively consider how to maximise the value of their electricity use through technology (e.g. metering) and access to better information.
- **Improving products and services, including price signals** – providing diverse products and flexible terms to meet consumer needs (e.g. prices which reflect supply costs at different times and locations). This includes appropriate protection for vulnerable customers;

- **Distribution business incentives** – arrangements encouraging distribution businesses to maximise the potential of changing consumption patterns as an alternative to network investment and support consumer choice; and
- **Supply chain interaction** – ensuring that the full value of demand side participation is identified and captured across different market sectors.

The review's draft report is due in September 2012.

For information contact:

AEMC Chairman, **John Pierce** (02) 8296 7800

AEMC Chief Executive, **Steven Graham** (02) 8296 7800

Media: Communication Manager, Prudence Anderson 0404 821 935 or (02) 8296 7817

23 August 2012