



23 May 2011

Australian Energy Market Commission
Level 5, 201 Elizabeth St
Sydney NSW 2000

Lodged (by email): submissions@aemc.gov.au

AEMC's Priorities Discussion Paper

The Energy Supply Association of Australia (esaa) welcomes the opportunity to make a submission to the Australian Energy Market Commission's (AEMC) Priorities Discussion Paper.

esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of over 40 electricity and downstream natural gas businesses. These businesses own and operate some \$120 billion in assets, employ over 52,000 people and contribute \$16 billion directly to the nation's Gross Domestic Product.

esaa welcomes the AEMC's intention to signal the priorities that will determine its work program and its interaction with other parties in energy market matters over the next few years. Like any organisation, the AEMC has limited resources, and it is therefore useful for it to have a few areas of particular focus that will govern how it utilises its resources over the near term. It is also important that the AEMC has given its stakeholders the opportunity to shape those priorities through this consultation process.

However, the link between the priorities and how they translate into a work program is only made obliquely, and esaa has to some extent inferred the work that will arise from these priorities. It would be helpful to stakeholders for the AEMC to set out its proposed work program more clearly in its final priorities document.

It's also important that the priorities are consistent with the AEMC's remit, as well as showing a clear consistency with the National Electricity and Gas Objectives. The AEMC's role is in energy market development, guided by these Objectives through appropriate changes to and reviews of the National Gas and Electricity Rules rather than the full spectrum of strategic, transformative energy *policy*. National energy policy should be determined by Governments, either individually where appropriate or through the Ministerial Council on Energy (MCE), with a view to co-ordination and harmonisation of Commonwealth and State and Territory energy frameworks where possible.

esaa notes that the MCE may direct the AEMC to undertake reviews into any issue affecting the electricity or gas markets to provide appropriate independent technical

advice to inform its policy making activities. The Association is supportive of this role. However, in doing so and in initiating its own reviews of the National Electricity and Gas Rules the AEMC must tread a fine line between keeping within the bounds of its own remit and attributing to itself a wider policy role that may properly lie elsewhere.

esaa also encourages the AEMC to be mindful of the high cost for the industry in responding to the various reviews. These costs include not only the direct cost of staff time and the employment of consultants but there may also be indirect costs from the investment uncertainty which reviews can engender.

Some stakeholders may look to the AEMC to provide direction where direction from the MCE may appear absent, in the hope that this may catalyse the MCE to commit to reinvigoration of its reform program. However, esaa trusts that the restart of the Energy White Paper process will be the appropriate trigger for such a reinvigoration.

Priority 1 A predictable regulatory and market environment for rewarding economically efficient investment

esaa welcomes the recognition that a predictable regulatory and market environment is critical to the efficient development of the sector. There are many factors that undermine the attractiveness of the Australian stationary energy sector. Two of the most significant from a generation and retail perspective are the continuing uncertainty over a carbon price mechanism and the continuing regulation of retail prices by most state and territory governments. The AEMC can directly influence the latter via its review of retail competition and esaa strongly supports continuation of this program with a focus on effective competition in the wholesale and retail sectors. However, the AEMC will be well aware that responsibility for addressing these issues ultimately lies with Commonwealth and state governments respectively.

A stable and predictable regulatory environment is also critical for continued investment in Australia's electricity and gas networks. Recent public musings by Professor Ross Garnaut and Rod Sims (in his capacity as Chair of the NSW Independent Pricing and Regulatory Tribunal) have served to further inflame the public debate on network revenues and rising electricity prices. As noted by the Australian Energy Regulator, there are sound reasons for increases in network costs including new connections; changes to reliability standards; the need to replace aging infrastructure; increases in peak demand; and the increased cost of debt after the Global Financial Crisis. The AEMC's commitment to a predictable regulatory framework is encouraging as it should prevent any desire to perform knee jerk reviews of the current regulatory environment.

As a repository of industry expertise it makes sense for the AEMC to provide input when requested by governments to help resolve issues that affect the sector's investment climate.

Identification of investment issues as a key priority may appear to provide a rationale for the AEMC to use its expertise and ability to initiate reviews to proactively provide advice to governments and seek to influence policy. If such forays into broader energy policy matters serve as a way of catalysing reinvigoration of the reform agenda and assist the Commonwealth Government in successfully implementing a

carbon price mechanism that allows the sector an orderly transition to lower emissions generation, then the policy outcomes will be welcomed by the industry. However, this should not be a justification for the AEMC exceeding its remit.

Priority 2 Building the capacity and capturing the value of flexible demand

esaa notes that the AEMC has recently initiated Stage 3 of the Demand Side Participation (DSP) review. It is valuable to understand to what extent there are remaining barriers to DSP and how they can be addressed without introducing other distortions into the market. esaa considers that DSP is but one element of a potential work program to address the key issue of how to facilitate efficient utilisation of the energy system, which we consider to be a strategic priority for the energy sector as a whole (see below). This ties in with the key issues of peak demand and rising prices identified by the AEMC in its discussion paper, and if this priority is recognised by the Government through the Energy White Paper process it could shape the future work program for the AEMC.

Priority 3 Ensuring the transmission framework delivers efficient and timely investment

esaa notes that the AEMC is already undertaking significant work on transmission frameworks, most notably through the Transmission Frameworks Review. We agree that this work should be followed through to its conclusion, and the importance of transmission in the electricity supply chain demand that the work be appropriately resourced. However, once the current review and related rule changes are complete, efficient and timely investment will best be facilitated by allowing the framework to remain in a steady state for some time.

Strategic priorities for the energy sector as a whole

Many of the Association's members, along with the Secretariat, were present at the forum held to launch the Discussion Paper. Minister Ferguson, in his opening address, expressed his intention that the AEMC's priorities would feed in to the Energy White Paper process. esaa considers that the White Paper process is vitally important to determine a broad energy policy over at least a two-decade time horizon. We consider that articulation of strategic priorities in that context is critical, but that it is a very different context from our understanding of what the AEMC is seeking to achieve with its own set of priorities for its work program. We think it is important to make this clear, and as we appreciate that the AEMC is not the architect of the White Paper, we have written separately to the Minister with our suggested set of broad, long-term strategic energy priorities (copy attached).

Any questions about our submission should be addressed to Kieran Donoghue, by email to kieran.donoghue@esaa.com.au or by telephone on (03) 9670 0188.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Brad Page', with a stylized flourish at the end.

Brad Page

Chief Executive Officer

cc The Hon Martin Ferguson, MP, Minister for Resources, Energy and Tourism

Attachment: Copy of letter to The Hon Martin Ferguson regarding strategic priorities energy market development